Basel 3 Pillar 3

Disclosure as at 31 December 2020

This is an English translation of the original Italian document "Terzo Pilastro di Basilea 3 Informativa al pubblico al 31 dicembre 2020". In cases of conflict between the English language document and the Italian document, the interpretation of the Italian language document prevails. The Italian original is available on group.intesasanpaolo.com.

This document contains certain forward-looking statements, projections, objectives, estimates and forecasts reflecting the Intesa Sanpaolo management's current views with respect to certain future events. Forward-looking statements, projections, objectives, estimates and forecasts are generally identifiable by the use of the words "may," "will," "should," "plan," "expect," "anticipate," "estimate," "believe," "intend," "project," "goal" or "target" or the negative of these words or other variations on these words or comparable terminology. These forward-looking statements include, but are not limited to, all statements other than statements of historical facts, including, without limitation, those regarding Intesa Sanpaolo's future financial position and results of operations, strategy, plans, objectives, goals and targets and future developments in the markets where Intesa Sanpaolo participates or is seeking to participate.

Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements as a prediction of actual results. The Intesa Sanpaolo Group's ability to achieve its projected objectives or results is dependent on many factors which are outside management's control. Actual results may differ materially from (and be more negative than) those projected or implied in the forward-looking statements. Such forwardlooking information involves risks and uncertainties that could significantly affect expected results and is based on certain key assumptions.

All forward-looking statements included herein are based on information available to Intesa Sanpaolo as of the date hereof. Intesa Sanpaolo undertakes no obligation to update publicly or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as may be required by applicable law. All subsequent written and oral forward-looking statements attributable to Intesa Sanpaolo or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements.

Basel 3 Pillar 3 Disclosure as at 31 December 2020

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Introduction

Notes to the Basel 3 Pillar 3 disclosure

With effect from 1 January 2014, the reforms of the accord by the Basel Committee (“Basel 3”) were implemented in the EU legal framework. Their aim is to improve the banking sector’s ability to absorb shocks arising from financial and economic stress, whatever the source, improve risk management and governance, and increase banks’ transparency and disclosures.
In doing so, the Committee maintained the approach founded on three Pillars, underlying the previous capital accord, known as “Basel 2”, supplementing and strengthening it to increase the quantity and quality of intermediaries’ available capital as well as introducing counter-cyclical regulatory instruments, provisions on liquidity risk management and financial leverage containment.

In particular, Pillar 3 – which concerns public disclosure obligations on capital adequacy, risk exposure and the general characteristics of related management and control systems, with the aim of better regulating the market – was also reviewed. Amongst other things, the amendments introduced greater transparency requirements, more information on the composition of regulatory capital and the methods used by banks to calculate capital ratios.

That said, the content of “Basel 3” was incorporated into two EU legislative acts:

– Regulation (EU) 575/2013 of 26 June 2013 (CRR), which governs the prudential supervision requirements of Pillar 1 and public disclosure requirements (Pillar 3);
– Directive 2013/36/EU of 26 June 2013 (CRD IV), which, among other things, deals with the access to the activity of credit institutions, freedom of establishment, freedom to provide services, supervisory review process, and additional equity reserves.

EU legislation is complemented by the provisions issued by the Bank of Italy, in particular with Circular 285 of 17 December 2013, which contains the prudential supervision regulations applicable to Italian banks and banking groups, reviewed and updated to adjust the internal regulations to the new elements of the international regulatory framework, with special reference to the new regulatory and institutional structure of banking supervision of the European Union and taking into account the needs detected while supervising banks and other intermediaries.

The above Circular does not dictate specific rules for the preparation and disclosure of Pillar 3 reporting, but simply reports the list of provisions envisaged for that purpose by the CRR. Therefore, the issue is directly regulated by:

– the CRR, Part Eight “Disclosure by Institutions” (Art. 431-455) and Part 10, Title I, Chapter 3, “Transitional provisions for disclosure of own funds” (Art. 492), as amended by Regulation (EU) 2019/876 (CRR II), progressively applicable in accordance with the provisions of Art. 3, point 3(k);
– the Regulations of the European Commission, whose preparation may be entrusted to the European Banking Authority (EBA), which draws up plans for regulatory or implementing technical standards;
– the Guidelines issued by the EBA - in line with the mandate entrusted to it by Regulation (EU) 1093/2010, which created it - for the purpose of establishing uniform templates for the publication of various types of information.

The issue of disclosure, handled for the first time in 2004, and subsequently revised in 2006 in the “Basel Framework” document, was the subject of an initial revision by the Basel Committee through its standard “Revised Pillar 3 disclosure requirements”, published in January 2015. This document contains indications that the Supervisory Authorities should incorporate in the national regulations (in our case the EU) so that they come into force. At the end of March 2017, the Basel Committee published the standard “Pillar 3 disclosure requirements - consolidated and enhanced framework” which constitutes the second phase of the review of the regulatory framework concerning public disclosure, started with the abovementioned document issued in January 2015. This second review aims to further promote market regulations through the consolidation of all the requirements already introduced and the arrangement of a dashboard of a bank’s key prudential metrics to support the market in the analysis of the data and achieve greater comparability.

The third phase of the review process initiated by the Basel Committee on Banking Supervision (BCBS) was completed in December 2018 - following the public consultation launched in February and concluded in May - with the publication of the final version of the document “Pillar 3 disclosure requirements - updated framework”. This document, in line with the previous revision phases and together with the revision of the leverage ratio disclosure requirements contained in the document “Revisions to leverage ratio disclosure requirements” published in June 2019, aims to establish a single reference framework for disclosure, with a view to harmonising the market rules. The new updated framework covers the following areas:

i) revisions and additions to the Pillar 3 regulatory framework resulting from the completion of the reform of the Basel 3 regulatory framework in December 2017, with the introduction of changes to the disclosure requirements for credit risk, operational risk, leverage ratio, credit valuation adjustment (CVA), the risk management summary models, the determination of risk-weighted assets (RWA), and the key prudential metrics;
ii) new requirements on encumbered assets, with the introduction of a new disclosure requirement that obliges banks to provide disclosure on both encumbered and unencumbered assets;
iii) new disclosure requirements on capital distribution restrictions to provide Pillar 3 users with additional information on the capital ratios that would give rise to capital distribution restrictions imposed by national regulators.

The new information introduced is intended to strengthen the disclosure requirement, with particular regard to the risk of coupon cancellation, and to provide greater support for investment decisions, price formation and market stability.

Further information on Pillar 3 was provided by the EBA in December 2014 with a specific document regarding the guidelines on materiality, proprietary and confidentiality and on the frequency of disclosure to be provided in Pillar 3 (EBA/GL/2014/14 - Guidelines on materiality, proprietary and confidentiality and on disclosures frequency under Articles 432(1), 432(2) and 433 of Regulation (EU) 575/2013), which governs the following additional significant aspects of the preparation of Pillar 3 disclosure:

– application by the institutions of the materiality criterion;
– application by the institutions of the proprietary and confidentiality criteria;
– need to publish the disclosure more frequently than once a year.

In this regard, on 14 December 2016, the EBA published the first version of the “Guidelines on disclosure requirements under Part Eight of Regulation (EU) 575/2013” (EBA/GL/2016/11), subsequently updated on 4 August 2017. These guidelines aim to increase and improve the consistency and comparability of the information to be provided for Pillar 3, requiring, from 31 December 2017, the publication of new tables in the Pillar 3 disclosure, for G-SIBs and O-SIIs banks, specifying their frequency of publication, with detailed information on credit and counterparty risk - including risk mitigation techniques and credit quality - as well as market risk. These guidelines were also implemented in the amendment of the CRR (CRR II) published in the Official Journal of the European Union (Regulation (EU) 2019/876).

The "Guidelines on sound remuneration policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and disclosures under Article 450 of Regulation (EU) 575/2013" (EBA/GL/2015/22) issued by the EBA on 21 December 2015 also contribute to setting out the disclosure framework. This aspect is not dealt with in this report but in the separate Report on remuneration policy and compensation paid and, in summary, in the Report on operations, in the chapter “Corporate Governance and remuneration policies”.

The EBA also supplemented the above-mentioned guidelines (EBA/GL/2016/11) with the publication, in June 2017, of the “Guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) 575/2013” (EBA/GL/2017/01), containing additional disclosure requirements for liquidity risk measured through the liquidity coverage ratio.

In January 2018, the EBA issued the “Guidelines on uniform disclosures under Article 473a of Regulation (EU) 575/2013 as regards the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds” (EBA/GL/2018/01) which establish the templates for the publication of information relating to the impacts on own funds resulting from the introduction of the regulation (EU) 2017/2395, containing “Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds”. As the Intesa Sanpaolo Group opted for the transitional arrangement through the “static” approach to mitigate this impact, it is also required to provide market disclosure on the amounts of its own funds, Common Equity Tier 1 Capital, Tier 1 Capital, CET1 ratio, Tier 1 ratio, Total ratio and fully loaded Leverage ratio, as if it had not adopted this transitional arrangement. As explained in further on this introduction, these Guidelines were amended by the Guidelines EBA/GL/2020/12 as part of the measures introduced in the wake of the COVID-19 epidemic.

In addition to the disclosure requirements set out in the “Guidance to banks on non-performing loans”, published by the ECB in March 2017 and applicable from the reporting dates for the financial year 2018, which formed the basis for the supplementation of existing tables, in December 2018 the EBA published the final version of the document “Guidelines on disclosures of non-performing and forborne exposures” (EBA/GL/2018/10), applicable from 31 December 2019 and aimed at promoting uniformity in the disclosure requirements for NPLs. This latest document has already been taken into account in the preparation of the related tables in Section 7 - Credit risk: credit quality.

Commission Implementing Regulation 1423/2013 of 20 December 2013, applicable from 31 March 2014, laid down implementing technical standards with regard to disclosure of own funds requirements, establishing uniform templates for the purposes of disclosure of information regarding: i) the full reconciliation of Common Equity Tier 1 Capital, Additional Tier 1 Capital and Tier 2 Capital, as well as the filters and deductions applied; and ii) the terms and conditions of outstanding instruments in Common Equity Tier 1 Capital, Additional Tier 1 Capital and Tier 2 Capital.

Starting from 1 January 2016, in application of Delegated Regulation 2015/1555 of 28 May 2015 which sets out “regulatory technical standards for the disclosure of information in relation to the compliance of institutions with the requirement for a countercyclical capital buffer in accordance with Article 440 of the CRR”, the disclosure obligations concerning the

countercyclical capital buffers have also been applied. Accordingly, the disclosure by the Intesa Sanpaolo Group includes – in addition to the amount of the countercyclical capital buffer – details on the geographical distribution of relevant credit exposures for the purpose of calculating the countercyclical capital buffer according to the regulations.

With specific reference to the information on the Leverage ratio, in February 2016 Commission Implementing Regulation 2016/200 was published in the Official Journal of the European Union, laying down implementing technical standards with regard to the disclosure on the Leverage ratio, under Regulation (EU) 575/2013.
Consequently, the Intesa Sanpaolo Group is publishing the Leverage ratio on the basis of the provisions contained in the Delegated Act. As noted below, the disclosures required by this Delegated Act were supplemented by the Guidelines EBA/GL/2020/11 as part of the measures introduced in the wake of the COVID-19 epidemic.

With regard to the information on encumbered assets, in December 2017 Commission Delegated Regulation (EU) 2017/2295 was published in the Official Journal of the European Union, which adopts the EBA Regulatory Technical Standards (RTS) (EBA/RTS/2017/03) and establishes the regulatory technical standards for the disclosure of encumbered and unencumbered assets. Consequently, the Intesa Sanpaolo Group is publishing this disclosure on the basis of the provisions contained in the Delegated Regulation.

As mentioned above, following the publication in the Official Journal of the European Union on 7 June 2019 of Regulation (EU) 2019/876 – also known as CRR II (Capital Requirements Regulation) and part of the broader package of regulatory reforms, also referred to as the Risk Reduction Measures (RRM), which also include the CRD V (Capital Requirements Directive), the BRRD II (Banking Recovery and Resolution Directive) and the SRMR II (Single Resolution Mechanism Regulation) – significant changes were introduced, particularly with regard to Part Eight of the CRR. In line with the regulatory changes introduced by CRR II, and to streamline and standardise the periodic disclosure to be provided to the market, the EBA, in accordance with the mandate given to it by Article 434 bis "Uniform disclosure formats" of the CRR II, has drawn up technical implementing standards, which underwent a public consultation process, ended on 16 January 2020, for all the entities subject to the disclosure requirements set out in Part Eight of the CRR and applicable, according to the EBA proposal, from June 2021.

As part of the context linked to the COVID-19 pandemic, in order to mitigate the possible negative effects of the current crisis generated by the COVID-19 pandemic and ensure disclosure regarding the areas affected by the containment measures adopted for that purpose, thereby promoting sufficient and suitable understanding of the risk profile of supervised institutions, on 2 June 2020, the EBA published the final version of the document "*Guidelines to address gaps in reporting data and public information in the context of COVID-19*" (EBA/GL/2020/07), which contains the guidelines for reporting and disclosure of exposures subject to the measures applied in response to the COVID-19 crisis, whose first-time application, for disclosure purposes, starts on 30 June 2020.
From that date, therefore, the three templates required by the above-mentioned Guidelines have been added to the Intesa Sanpaolo Group's public disclosure – "Credit risk: credit quality" section.

Also within the emergency scenario outlined above, Regulation (EU) 2020/873 of 24 June 2020, amending Regulations (EU) 575/2013 and Regulation (EU) 2019/876 containing temporary support provisions in terms of capital and liquidity, was published with an accelerated approval procedure (the "quick-fix").
The Regulation establishes that institutions that decide to apply the provisions of the new transitional IFRS 9 rules relating to adjustments to loans after 31 December 2019, amending the rules introduced by Regulation (EU) 2017/2395, and/or the temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income in view of the COVID-19 pandemic (the prudential filter for exposures to central governments classified as FVTOCI), in addition to disclosing the information required in Part Eight of the CRR, they are required to disclose the amounts of own funds, Common Equity Tier 1 capital and Tier 1 capital, the total capital ratio, the Common Equity Tier 1 capital ratio, the Tier 1 capital ratio, and the leverage ratio they would have in case they did not apply that treatment.
To complete the regulatory framework that took shape due to the pandemic crisis, following the adoption of the CRR "quick-fix", on 11 August 2020 the EBA published the additional guidelines on reporting and disclosure already referred to above, in which it provides clarifications and instructions for the applications of the regulatory changes for the purpose of filling out the credit risk, market risk, own funds and leverage ratio templates and, for the latter, the related disclosure ("Guidelines on supervisory reporting and disclosure requirements in compliance with the CRR 'quick fix' in response to the COVID-19 pandemic" EBA/GL/2020/11), in addition to clarifying the disclosure obligations relating to temporary treatment introduced by the quick-fix ("Guidelines amending Guidelines EBA/GL/2018/01 on uniform disclosures under Article 473a of Regulation (EU) No 575/2013 (CRR) on the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds to ensure compliance with the CRR 'quick fix' in response to the COVID-19 pandemic" – EBA/GL/2020/12).
Among the various provisions set out in Regulation (EU) 2020/873, the ISP Group has opted not to use either the changes to the transitional regime for the application of IFRS 9 (art. 473a of the CRR) or the FVTOCI prudential filter (art. 468 CRR) for the purpose of calculating own funds as at 31 December 2020, in line with the approach adopted as at 30 June 2020 and 30 September 2020.

In the interests of completeness, a summary is provided below of the provisions contained in the quick-fix, which can be adopted by institutions, and their application (or non-application) at Group level:

CRR Quick-Fix (Reg. 2020/873)	Application at ISP Group level as at 31 December 2020	Pillar 3 Section Reference
New IFRS 9 regime amending the provisions introduced by Reg. 2017/2395 (Art. 473a)	Not applied	Introduction Section 4 Capital Requirements
Temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income in view of the COVID-19 pandemic (prudential filter for exposures to central governments classified as FVTOCI) (art. 468)	Not applied	Introduction Section 4 Capital Requirements
Exclusion of overshootings from the calculation of the back-testing addend in view of the COVID-19 pandemic (Art. 500c)	Not applied	Section 13 Market risk
Temporary exclusion of certain exposures to central banks from the total exposure measure for leverage in view of the COVID-19 pandemic, under exceptional circumstances determined by the competent authority (Article 500b)	Applied from December 2020 (as a result of ECB Decision 2020/1036 declaring the existence of exceptional circumstances)	Section 18 Leverage ratio
Temporary calculation of the exposure value of regular-way purchases and sales awaiting settlement in view of the COVID-19 pandemic (Article 500d)	Not applied	Section 18 Leverage ratio

Lastly, on 23 December 2020, Commission Delegated Regulation (EU) 2020/2176 entered into force, which amends Commission Delegated Regulation (EU) 241/2014 as regards the deduction of software assets from Common Equity Tier 1 items. The Regulation, which is, inter alia, intended to support the transition to a more digitalised banking sector, introduces the criterion of prudential amortisation applied to all software assets over a three-year period, regardless of their estimated useful lives for accounting purposes. The Intesa Sanpaolo Group has applied the provisions of the above-mentioned Regulation for the calculation of the capital ratios as at 31 December 2020.

Details of the impact of the COVID-19 pandemic on the different types of risk (liquidity risk, credit risk, market risk and operational risk) are provided in the individual sections of this document. With regard more generally to the main risks and uncertainties that the Group is exposed to, and, within them, to the situation resulting from the COVID-19 pandemic, details of the specific guidance provided by the Authorities and the consequent choices made by the Group can be found in the Group's 2020 Annual Report.

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In accordance with the above provisions and in line with the approach described above, this document has been prepared on a consolidated basis with reference to a "prudential" scope of consolidation, essentially corresponding to the definition of Banking Group for Regulatory purposes (as described in Section 2 - Scope of application - Qualitative disclosure).

With regard to the prudential scope of consolidation, the main change in 2020 involved the entry of UBI Banca and its subsidiaries belonging to the banking group in the third quarter. In the first half, on the other hand, there were no significant changes in the prudential scope of consolidation with respect to 31 December 2019, because the entry of RBM Assicurazione Salute (later renamed Intesa Sanpaolo RBM Salute) into the scope of consolidation on a line-by-line basis, which was the only significant change in the ISP Group's accounting scope of consolidation, was not included in the prudential scope, being an insurance company. In the interests of completeness, the changes in the prudential scope of consolidation also included the entry of Intesa Sanpaolo (Qingdao) Service Company Limited and, at the end of the year, of Intesa Sanpaolo Value Services and the exit, due to disposal, of Morval Vonwiller Asset Management and Cib Factor Financial Service LTD under voluntary liquidation.
Lastly, the main changes involving entities under common control, which do not have any impact at consolidated level, included the removal from the line-by-line consolidation of Banca IMI (merged into the Parent Company), Neva Finventures (merged into Intesa Sanpaolo Innovation Center), PBZ Nekretnine D.O.O. (merged into PBZ Card D.O.O. within the PBZ group) and, within the Risanamento Group, Etoile Actualis S.a.r.l. (merged into Etoile Francois Premier S.a.r.l). Full details of these changes are provided in Part G of the Notes to the 2020 Consolidated Financial Statements.
In line with the related supervisory reports, the comparative data relating to previous periods were not restated to take account of the changes in the scope of consolidation.

Under the terms of Art. 433 of the CRR, banks publish the disclosures envisaged in European regulations at least once a year, at the same time as the financial statements. They are also required to assess the need to publish some or all these disclosures more frequently, based on the significant characteristics of current activities. In particular, entities must assess whether there is a need to publish disclosures more frequently in relation to "Own Funds" (Art. 437), "Capital Requirements" (Art. 438), and disclosures regarding risk exposure or other aspects subject to rapid change. In this regard, it is also necessary to consider the specific instructions introduced by the EBA Guidelines (EBA/GL/2016/11, EBA/GL/2018/10 and EBA/GL/2020/07), which require interim disclosures of certain information. Given the above regulatory provisions, when issuing its interim statements for March and September, Intesa Sanpaolo publishes summary disclosures on its "Own Funds", "Capital Requirements", "Liquidity Risk" and "Leverage ratio", supplemented in the half-yearly report with additional information on credit, counterparty, market and operational risks.

In relation to the scope of application of the provisions of the CRR, which refers - as previously indicated - to a "prudential" consolidation scope, and the provisions of the CRR, this document does not illustrate all the types of risk that the Intesa Sanpaolo Group is exposed to. Additional information about the risks is presented in the consolidated financial statements based on the provisions of IFRS 7 and the related explanatory instructions issued by the Bank of Italy (Circular 262 and related updates). In particular, the information on risks is set forth in Part E of the Notes to the consolidated financial statements. Part E also illustrates:

- the various types of risks of the insurance segment (Part E – Information on risks and relative hedging policies: Section 3 – Risks of insurance companies);
- the risks of other companies (Part E – Information on risks and relative hedging policies: Section 4 – risks of other companies);
- banking group foreign exchange risk (Part E – Information on risks and relative hedging policies: Section 2 – Risks of the prudential consolidation: 1.2.3 Foreign exchange risk);
- exposure to structured credit products (Part E – Information on risks and relative hedging policies: Section 2 – Risks of the prudential consolidation: Other information on financial risks – Information on structured credit products);
- legal and tax disputes (Part E – Information on risks and relative hedging policies: Section 2 – Risks of the prudential consolidation: 1.5 Operational risk - Legal risks and tax litigation).

In order to better understand the organisation of the Group, reference is also made to the Report on operations of the consolidated financial statements (Breakdown of consolidated results by business area and geographical area – Balance sheet aggregates).

The "Report on Corporate Governance and Ownership Structures" and the "Report on remuneration policy and compensation paid" include all the information concerning the Corporate Governance system of Intesa Sanpaolo and the remuneration policies in force. The documents are available for consultation in the "Governance" section of the Bank's website at: www.group.intesasanpaolo.com.

In particular, the "Report on Corporate Governance and Ownership Structures" includes the information required by paragraph 2 of art. 435 of the CRR:

- in Part II – Information on the adoption of the Corporate Governance Code and other information on Governance:
  - the engagement policy for the selection of members of the management body and their actual knowledge, skills, and experience;
  - the diversity policy adopted in the selection of members of the management body, its objectives and any targets set within the framework of that policy as well as the extent to which these objectives and targets have been achieved;
  - whether the entity has set up a separate risk committee and the number of times that the committee has met;
  - the description of the flow of information on risks to the management body.
- in Part III – Summary Tables:
  - the number of directorships held by members of the management body.

The "Report on remuneration policy and compensation paid" includes all the information required by Art. 450 of the CRR on the remuneration policy and procedures for those categories of staff whose professional activities have a material impact on the risk profile of the Bank.

All the amounts reported in this disclosure, unless otherwise specified, are stated in millions of euro.

With regard to the information contained in this document on the geographical distribution of the exposures, it should be noted that the materiality thresholds used to identify the countries to be reported by name are consistent with the provisions of EBA Guidelines GL/2018/10, GL/2016/11 and GL/2014/14.

Lastly, an explanation of the meaning of certain terms and/or abbreviations commonly used in this disclosure is provided in the specific glossary annexed to this document.

The Group's website also publishes information, upon the required deadlines, on the value of the indicators of global systemic importance (Governance\Risk management Section of the website: "Indicators of the assessment methodology to identify the global systemically important banks").

Approval, certification and publication of the Basel 3 Pillar 3 disclosure of Intesa Sanpaolo as at 31 December 2020

The Basel 3 Pillar 3 disclosure as at 31 December 2020 ("Pillar 3") of Intesa Sanpaolo has been prepared in accordance with Part Eight of Regulation (EU) 575/2013, considering the specific requirements introduced by the EBA "Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013" of 14 December 2016.

The preparation of the Pillar 3 disclosure on capital adequacy, risk exposure and the general characteristics of the related management and control systems of Intesa Sanpaolo is governed, in compliance with the applicable regulations, by the "Guidelines on the disclosure of Financial information to the Market", approved by the Board of Directors. The governance of the Pillar 3 disclosure requires the Chief Risk Officer to ensure that the risk information provided therein complies with the prudential regulation and is consistent with Group risk management guidelines and policies and with the measurement and control of the Group's exposure to the different risk categories. Furthermore, as regards public disclosure, the document is accompanied by the declaration of the Manager responsible for preparing the Company's financial reports, pursuant to paragraph 2 of Art. 154-bis of the Consolidated Law on Finance, which confirms that the accounting information contained in the document corresponds to the supporting documentation, ledgers and other accounting records.

The preparation of Financial disclosures to the Market is one of the processes subject to assessment under the Group "Administrative and Financial Governance Guidelines", which were also approved by the Board of Directors and updated in 2020, as required by Art. 154-bis of the Consolidated Law on Finance, which has qualified by law the role of the Manager responsible for preparing the Company's financial reports, assigning to this role specific responsibilities aimed at guaranteeing the presentation of a true and fair view of the information on balance sheet, income statement and financial position of the Group.

The disclosure is prepared in accordance with the internal processes and control systems that have been adopted by the Bank.
Intesa Sanpaolo's internal control system is built around a set of rules, functions, structures, resources, processes and procedures aimed at ensuring, in compliance with sound and prudent management, the achievement of the following objectives:

- the verification of the implementation of Company strategies and policies;
- the containment of risk within the limits indicated in the reference framework for determining the Bank's risk appetite (Risk Appetite Framework – RAF);
- the safeguarding of asset value and protection from losses;
- effectiveness and efficiency of the Company processes;
- the reliability and security of Company information and IT procedures;
- the prevention of the risk that the Bank may be involved, including involuntarily involved, in illegal activities (with special regard to those relating to money-laundering, usury and financing of terrorism);
- the compliance of transactions with the law and supervisory regulations, as well as internal policies, procedures and regulations.

Considering the importance of this disclosure, Intesa Sanpaolo has decided to submit the annual Pillar 3 Disclosure, as at 31 December, to a limited review on a voluntary basis. The Independent Auditor's report is included.

The document is submitted for approval by the Board of Directors and subsequently published on Intesa Sanpaolo's website at the link www.group.intesasanpaolo.com in the Governance – Risk Management section.

References to the regulatory disclosure requirements

The tables below provide a summary of the location of the market disclosure, in accordance with the regulatory requirements governed by the European legislation and in particular CRR Part Eight and the EBA Guidelines:

- GL/2016/11 – "Guidelines on disclosure requirements under Part Eight of Regulation (EU) No. 575/2013";
- GL/2017/01 – "Guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No. 575/2013";
- GL/2018/10 - "Guidelines on disclosures of non-performing and forborne exposures".
- GL/2020/07 – "Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis";
- GL/2020/11 – "Guidelines on supervisory reporting and disclosure requirements in compliance with the CRR 'quick fix' in response to the COVID-19 pandemic";
- GL/2020/12 – "Guidelines amending Guidelines EBA/GL/2018/01 on uniform disclosures under Article 473a of Regulation (EU) No 575/2013 (CRR) on the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds to ensure compliance with the CRR 'quick fix' in response to the COVID-19 pandemic", which replace the previous GL/2018/01.

Reference to the CRR Part Eight regulatory requirements

CRR Article	Pillar 3 Section Reference	Reference to other company disclosures
435 - Risk management objectives and policies	▪ Introduction (specific reference also to the "Report on Corporate Governance and Ownership Structures") ▪ Section 1 - General requirements ▪ Section 5 - Liquidity risk ▪ Section 6 - Credit risk: general disclosure ▪ Section 11 - Counterparty risk ▪ Section 13 - Market risk ▪ Section 14 – Operational risk	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part E ▪ Consolidated financial statements - Report on operations – Overview of 2020 ▪ Report on Corporate Governance and Ownership Structures
436 - Scope of application	▪ Section 2 - Scope of application	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part A ▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part E
437 - Own funds	▪ Section 3 - Own Funds ▪ Attachment 1 - Own funds: terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments ▪ Attachment 2 - Own funds: own funds disclosure template	-
438 - Capital Requirements	▪ Section 4 - Capital Requirements	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part E
439 - Exposure to counterparty credit risk	▪ Section 11 - Counterparty risk	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part E
440 - Capital buffers	▪ Section 4 - Capital Requirements	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part F
441 - Indicators of global systemic importance	▪ Introduction (specific reference to information published in the website)	▪ Website (Indicators of the assessment methodology to identify the global systemically important banks)
442 - Credit risk adjustments	▪ Section 6 - Credit risk: general disclosure ▪ Section 7 - Credit risk: credit quality	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part A ▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part E
443 - Unencumbered assets	▪ Section 17 - Encumbered and unencumbered assets	-
444 - Use of ECAIs	▪ Section 6 - Credit risk: general disclosure ▪ Section 8 - Credit risk: disclosures on portfolios subject to the standardised approach	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part E
445 - Exposure to market risk	▪ Section 13 - Market risk	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part E
446 - Operational risk	▪ Section 14 – Operational risk	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part E
447 - Exposures in equities not included in the trading book	▪ Section 15 - Equity Exposures: disclosures for positions not included in the trading book	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part E
448 - Exposure to interest rate risk on positions not included in the trading book	▪ Section 16 - Interest rate risk on positions not included in the trading book	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part E
449 - Exposure to securitisation positions	▪ Section 12 – Securitisations	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part E
450 - Remuneration policy	▪ Introduction (specific reference to "Report on remuneration policy and compensation paid")	▪ Consolidated financial statements: Report on operations - Corporate Governance and remuneration policies ▪ Report on remuneration policy and compensation paid
451 - Leverage	▪ Section 18 - Leverage ratio	-
452 - Use of the IRB Approach to credit risk	▪ Section 6 - Credit risk: general disclosure ▪ Section 9 - Credit risk: disclosures on portfolios subject to IRB approaches	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part E
453 - Use of credit risk mitigation techniques	▪ Section 6 - Credit risk: general disclosure ▪ Section 10 - Credit risk mitigation techniques	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part E
454 - Use of the Advanced Measurement Approaches to operational risk	▪ Section 14 – Operational risk	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part E
455 - Use of Internal Market Risk Models	▪ Section 13 - Market risk	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part E
492 – Disclosure of own funds	▪ Section 3 - Own Funds ▪ Attachment 2 – Own funds: own funds disclosure template	-

Reference to EBA requirements (EBA/GL/2016/11, EBA/GL/2017/01, EBA/RTS/2017/03, EBA/GL/2018/10, EBA/GL/2020/07, EBA/GL/2020/11 and EBA/GL/2020/12)

The table below shows the location within the Pillar 3 document of the disclosure requirements introduced by the various provisions from the European Regulator. In particular, details are provided of the requirements introduced by the EBA Guidelines (EBA/GL/2016/11 and EBA/GL/2017/01), in force from 31 December 2017. In addition, the disclosure requirement has been added regarding the IFRS 9 transitional period required by the EBA Guidelines (EBA/GL/2018/01, with initial application on 31 March 2018), subsequently amended by EBA/GL/2020/12, applicable from August 2020. The requirements of the EBA RTS (EBA/RTS/2017/03), as endorsed by Regulation (EU) 2017/2295, have been implemented with regard to encumbered and unencumbered assets. In Section 7 – Credit risk: credit quality, the requirements of the EBA Guidelines on disclosure of non-performing and forborne exposures (EBA/GL/2018/10) have been supplemented, with initial application on 31 December 2019. This section now also includes the disclosure required by EBA/GL/2020/07, with initial application from 30 June 2020, on exposures subject to the EBA Guidelines on legislative and non-legislative moratoria on loan payments applied as a result of the COVID-19 crisis and on new exposures subject to public guarantee schemes (EBA GL 2020/02). Finally, as part of the measures introduced by the CRR quick-fix, the requirements of EBA/GL/2020/11 concerning the disclosure of leverage have been added (with initial application for the ISP Group from 31 December 2020).

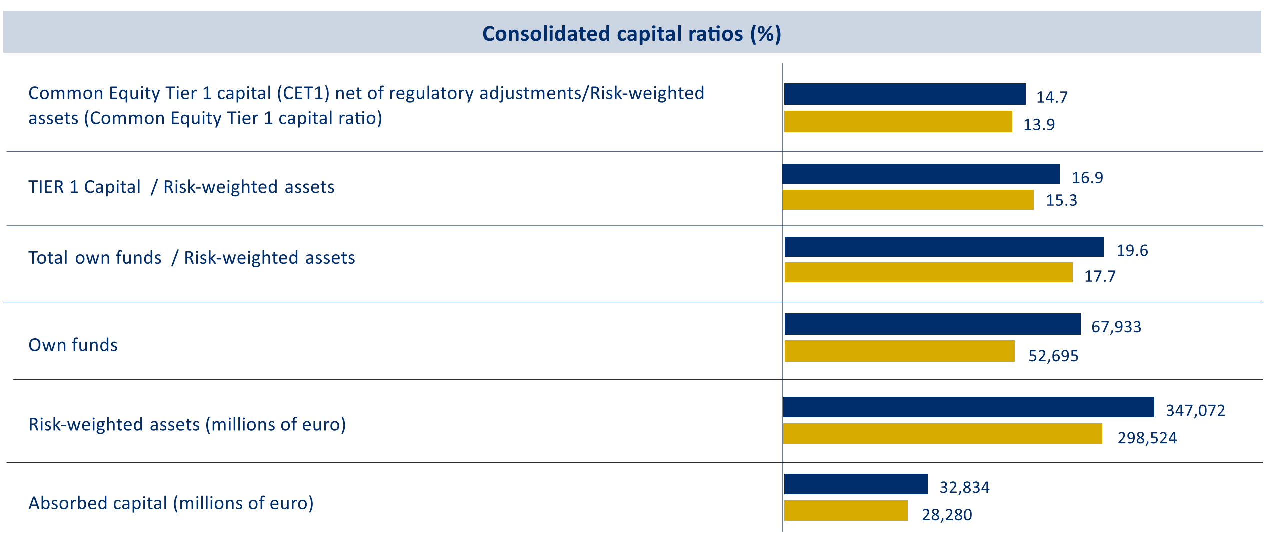
EBA requirements Table	Description of Table	Pillar 3 Section
EU OVA	Institution risk management approach	Section 1 – General requirements
EU LI3	Outline of the differences in the scopes of consolidation (entity by entity)	Section 2 – Scope of application
EU LI1	Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories	
EU LI2	Main sources of differences between regulatory exposure amounts and carrying values in financial statements	
EU LIA	Explanations of differences between accounting and regulatory exposure amounts	
EU OV1	Overview of RWAs	Section 4 - Capital Requirements
EU CR8	RWA flow statements of credit risk exposures under the IRB approach	
EU CCR7	RWA flow statements of CCR exposures under the IMM	
EU MR2-B	RWA flow statements of market risk exposures under the IMA	
EU INS1	Non-deducted participations in insurance undertakings	
EU IFRS 9-FL	Comparison of own funds, capital ratios and leverage ratio with and without the application of transitional provisions for IFRS 9	
EU LIQA	Qualitative information of liquidity risk	Section 5 – Liquidity Risk
EU LIQ1	LCR disclosure template and additional disclosure	
EU CRA	General information about credit risk	Section 6 – Credit risk: General disclosure
EU CRB-B	Total and average net amount of exposures	
EU CRB-C	Geographical breakdown of exposures	
EU CRB-D	Concentration of exposures by industry or counterparty types	
EU CRB-E	Breakdown of exposures by residual maturity	
EU CRB-A	Additional disclosure related to the credit quality of assets	Section 7 – Credit risk: Credit quality
EU CR1-A*	Credit quality of exposures by exposure class and instrument	
Template 5**	Quality of non-performing exposures by geography	
Template 3**	Credit quality of performing and non-performing exposures by past due days	
Template 4**	Performing and non-performing exposures and related provisions	
Template 6**	Credit quality of loans and advances by industry	
EU CR2-B	Changes in the stock of defaulted and impaired loans and debt securities	
EU CR2-A	Changes in the stock of general and specific credit risk adjustments	
Template 8**	Changes in the stock of non-performing loans and advances	
Template 1**	Credit quality of forborne exposures	
Template 2**	Quality of forbearance	
Template 7**	Collateral valuation – loans and advances	

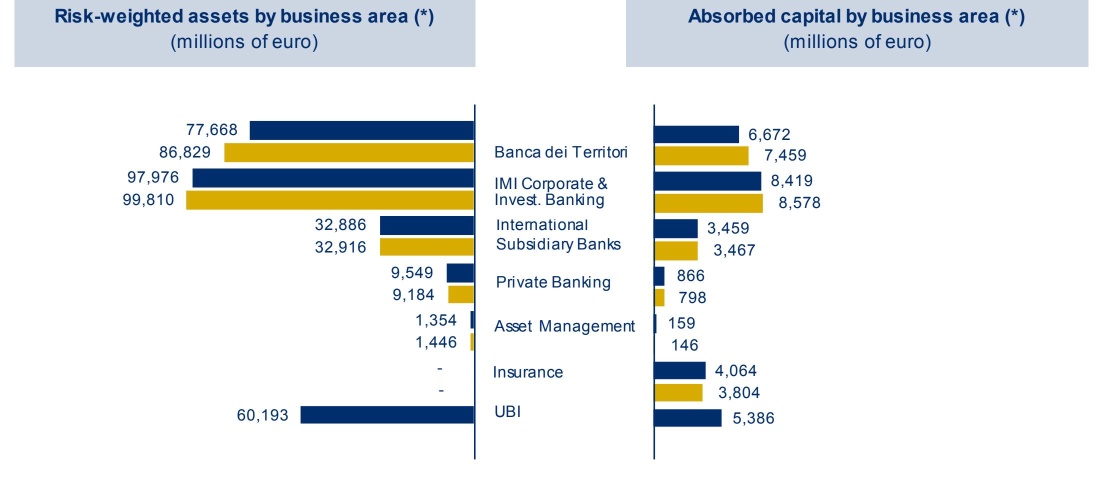
Template 10**	Collateral obtained by taking possession and execution processes – vintage breakdown	
Table 1 – COVID-19***	Information on loans and advances subject to legislative and non-legislative moratoria	
Table 2 – COVID-19***	Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria	
Table 3 – COVID-19***	Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis	
EU CRD	Qualitative disclosure on the institution's use of external credit ratings under the standardised approach for credit risk	Section 8 – Credit risk: Disclosures on portfolios subject to the standardised approach
EU CR4	Standardised approach - Credit risk exposure and CRM effects	
EU CR5	Standardised approach - Exposures post CCF and CRM	
EU CR5 bis	Standardised approach - Exposures before CCF and CRM	
EU CRE	Qualitative disclosure on IRB models	Section 9 – Credit risk: Disclosures on portfolios subject to IRB approaches
EU CR7	IRB approach - Effect on the RWAs of credit derivatives used as CRM techniques	
EU CR6	IRB approach – Credit risk exposures by exposure class and PD range	
EU CR10	IRB (specialised lending and equities)	
EU CR9	IRB approach – Backtesting of PD per exposure class	
EU CRC	Qualitative disclosure on CRM techniques	Section 10 – Risk mitigation techniques
EU CR3	CRM techniques – Overview	
EU CCRA	Qualitative disclosure on CCR	Section 11 – Counterparty risk
EU CCR1	Analysis of CCR exposure by approach	
EU CCR2	CVA capital charge	
EU CCR3	Standardised approach – CCR exposures by regulatory portfolio and risk weighting	
EU CCR3 bis	Standardised approach – CCR exposures by regulatory portfolio and risk weighting - Amounts without risk mitigation	
EU CCR4	IRB approach – CCR exposures by portfolio and PD scale	
EU CCR6	Credit derivatives exposures	
EU CCR5-A	Impact of netting and collateral held on exposure values	
EU CCR5-B	Composition of collateral for exposures to CCR	
EU CCR8	Exposures to CCPs	
EU MRA	Qualitative disclosure on market risk	Section 13 – Market risk
EU MRB	Qualitative disclosure for institutions using the IMA	
EU MR1	Market risk under the standardised approach	
EU MR2-A	Market risk under the IMA	
EU MR3	IMA values for trading portfolios	
EU MR4	Comparison of VaR estimates with gains/losses	
Template A	Encumbered and unencumbered assets	Section 17 – Encumbered and unencumbered assets
Template B	Guarantees received	
Template C	Sources of encumbrance	
Template D	Accompanying descriptive information	
LRCom	Leverage ratio common disclosure	Section 18 - Leverage ratio
LRSum	Summary reconciliation of accounting assets and leverage ratio exposure	
LRSpl	Split-up of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	

* In Section 7, table supplemented to comply with the requirements of the "Guidance to banks on non-performing loans" (ECB, March 2017) – Annex 7.
** In Section 7, table introduced as at 31 December 2019 based on the requirements of EBA/GL/2018/10.
*** In Section 7, table introduced as at 30 June 2020 based on the requirements of EBA/GL/2020/07.

Section 1 – General requirements

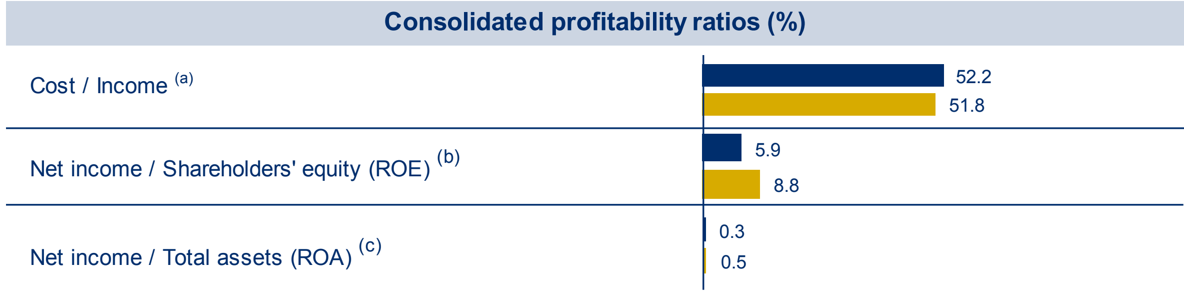
Group's risk profile: key indicators as at 31 December 2020





(*) Excluding Corporate Centre

Figures restated, where necessary and material, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations. The figures concerning UBI Group - relating to 31.12.2020 only - have not been restated.

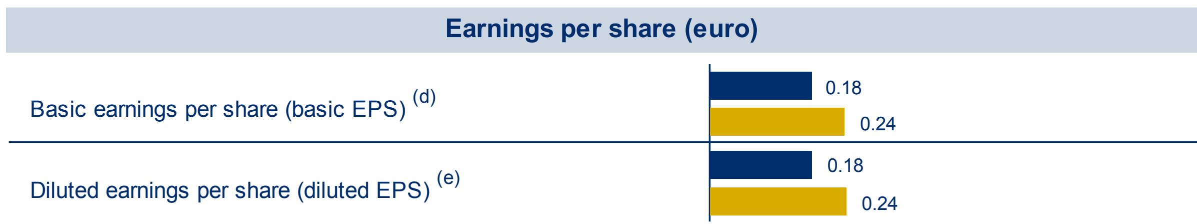


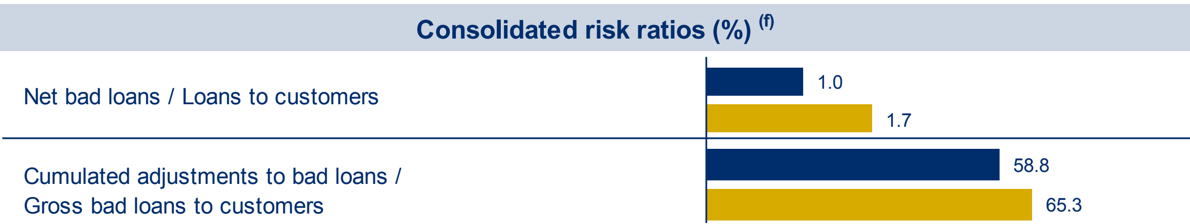
Figures restated, where necessary and material, considering the changes in the scope of consolidation and discontinued operations. The figures concerning UBI Group have not been restated.

(a) Consolidated figures net of UBI Group.

(b) Ratio of net income to shareholders' equity at the end of the period. Shareholders' equity does not take account of AT 1 capital instruments or the income for the period.

(c) Ratio between net income and total assets.





Figures restated, where necessary and material, considering the changes in the scope of consolidation and discontinued operations. The figures concerning UBI Group have not been restated.

(d) Net income (loss) attributable to holders of ordinary shares compared to the weighted average number of outstanding ordinary shares. The figure for comparison is not restated.

(e) The dilutive effect is calculated with reference to the programmed issues of new ordinary shares.

(f) Consolidated figures net of UBI Group.

2020 (Income statement figures)
31.12.2020 (Balance sheet figures)
2019 (Income statement figures)
31.12.2019 (Balance sheet figures)

General risk management principles

The Intesa Sanpaolo Group attaches great importance to risk management and control, as condition to ensure a reliable and sustainable value creation in a context of controlled risk.
The risk management strategy aims to achieve a complete and consistent overview of risks, considering both the macroeconomic scenario and the Group's risk profile, stimulating the growth of the risk culture and enhancing a transparent and accurate representation of the riskiness of the Group's portfolios.
The Risk-taking strategies are summarised in the Group's Risk Appetite Framework (RAF), approved by the Board of Directors. The RAF is established to ensure that risk-taking activities remain in line with shareholders' expectations, taking into account the Group's risk position and the economic situation. The framework defines both the general risk appetite principles and the control of the overall risk profile and the main specific risks.
The general principles that govern the Group's risk- taking strategy may be summarised as follows:

- Intesa Sanpaolo is a Banking Group focused on a commercial business model where domestic retail activities remain the Group's structural strength;
- the Group's goal is not to eliminate risks, but to understand and manage them in such a way as to guarantee an adequate returns on the risks taken and guarantee soundness and business continuity over the long term;
- Intesa Sanpaolo has a low risk profile in which capital adequacy, profits stability, a sound liquidity position and a strong reputation are the key strengths for maintaining its current and prospective profitability;
- Intesa Sanpaolo aims for a capitalisation level in line with its main European peers;
- Intesa Sanpaolo intends to maintain strict control over the main specific risks (not necessarily related to macroeconomic shocks) that the Group may be exposed;
- Intesa Sanpaolo recognises the strategic importance of ESG (Environmental Social and Governance) factors and the urgency of curbing climate change. The Group is committed to including the impact of these aspects in strategic decision-making processes and to fully integrate them into its risk management framework with the goal of maintaining a low risk profile. This includes controlling how ESG risks and those connected with climate change impact existing risks (credit, operational, reputational, market and liquidity risk) and implementing high ethical and environmental standards in internal processes, products and services offered to customers and in the selection of counterparties and suppliers;
- Intesa Sanpaolo attributes particular emphasis to the monitoring and controlling Non-Financial Risks, to guarantee the sustainability of its operating model over the long term, also by limiting operational losses and avoiding reputational damages. This is achieved through:
  - for operational risks (including IT, cyber, business continuity, legal and third party risks), the Group defines specific controls and dedicated limits and indicators to reduce financial damages and preserve business continuity;
  - for compliance risk, the Group aims for formal and substantive compliance with rules in order to avoid sanctions and maintain a solid relationship of trust with all of its stakeholders;
  - for reputational risk, the Group strives to actively manage its image and aims to prevent and contain any negative effects on said image.

The general principles are applicable at Group level as well as at business unit or legal entity level. In the event of external growth, these general principles shall be applied taking into consideration the specific characteristics of the business in which the target is involved and its competitive environment.
The Risk Appetite Framework thus represents the overall framework within which the management of corporate risks is developed, with the establishment of general risk appetite principles and the resulting structuring of the control of:

- the overall risk profile; and
- the Group's main specific risks.

The control of the overall risk profile derives from the definition of general principles and is structured in the form of a framework of limits aimed at ensuring that the Group, even under severe stress conditions, complies with minimum requirements of capital adequacy, liquidity, stability of profit, own funds and eligible liabilities for the Minimum Requirement for Own Funds and Eligible Liabilities, and also contains the non-financial risks within appropriate limits.
In detail, the control of the overall risk profile is aimed at maintaining adequate levels of:

- capitalisation, also in conditions of severe macroeconomic stress, in relation to both Pillar 1 and Pillar 2, by monitoring the Common Equity Ratio, the Total Capital Ratio, the Leverage Ratio and the Risk Bearing Capacity;
- liquidity, sufficient to face periods of tension, including extended ones, on the various funding markets, with regard to both the short-term and the structural situation, by monitoring the internal limits of the Liquidity Coverage Ratio, Net Stable Funding Ratio, Loan/Deposit Ratio, Asset Encumbrance and Survival Period in an adverse scenario;
- stability of profits, by monitoring the net profit adjusted and the adjusted operational cost on income, which represent the main potential causes for their instability;
- own funds and eligible liabilities for the Minimum Requirement for Own Funds and Eligible Liabilities (MREL), to be able to absorb any losses and restore the Group's capital position, continuing to perform its critical economic functions during and after a crisis;
- non-financial risks, in order to minimise the potential impact of negative events that jeopardise the Group's economic stability and image.

In compliance with the EBA guidelines (EBA/GL/2015/02) concerning the "Minimum list of quantitative and qualitative recovery plan indicators", the Group includes early warning thresholds for asset quality, market-based and macroeconomic indicators, to ensure consistency with its Recovery Plan.
The control of the main specific risks is implemented by establishing specific limits and mitigation actions to be taken in order to limit the impact of particularly severe future scenarios on the Group. These limits and actions regard the most significant risk concentrations such as, for example, concentration on single counterparties, sovereign risk and the public sector risk, as well as other types of operations deemed worth of specific attention by the Corporate Bodies (e.g. transactions exposed to valuation risk).
Within the monitoring of the specific risks, the Credit Risk Appetite (CRA) Framework, a specific RAF for credit risk introduced in 2015, identifies areas of growth for loans and areas to be monitored, using an approach based on ratings and other predictive statistical indicators, to guide lending growth by optimising the management of risk.
The CRA limits are approved within the RAF and are continuously monitored by the Credit Risk Management Head Office

Department. These contributed to improving the risk profile of the loan portfolio in terms of expected loss and the distribution of loans by risk class.
The limits set in the RAF are divided into two categories, Hard Limits and Soft Limits, which differ in the escalation process triggered by their breach. In particular, with regard to the Group limits, whose governance is established in detail in the Guidelines on the Group Risk Appetite Framework, the responsibility for approving the remediation plan is assigned:

- to the Board of Directors for Hard Limits, typically set for the main metrics used to control overall risk profile (e.g. Common Equity Tier 1 ratio, Liquidity Coverage ratio, etc.);
- to the Managing Director and CEO for Soft Limits, set on the metrics used to control the main specific risks (e.g. single name concentration, concentration towards the Italian public sector, etc.).

The limits themselves may be accompanied by the Early Warning thresholds, the exceeding of which is promptly discussed in the competent managerial committee[1].
Defining the Risk Appetite Framework is a articulated process headed by the Chief Risk Officer, which involves close interaction with the Chief Financial Officer and the Heads of the various Business Units, is developed in line with the ICAAP, ILAAP and Recovery Plan processes, and represents the risk framework in which the Budget and Business Plan are developed. This ensures consistency between the strategy and the risk-taking policy and the Plan and Budget process.
Within the annual RAF update process, it is possible to identify the following phases:

- Risk Identification: this is performed continuously in the Group to maintain ongoing alignment with the changing internal and external context and to guarantee the adequacy of the controls and limits implemented to safeguard the Group "Long term viability". The following are analysed in detail: the regulatory contexts, the reference market situation, the Group's position and the nature of the potential threats, also with the support of specific stress tests;
- Risk Assessment: this phase assesses the risk actually assumed (Risk Profile) with respect to the maximum risk that can be taken on (Risk Capacity) and the risk appetite, investigating the main types of risk of the Group, including prospective ones, using both quantitative and qualitative techniques. In particular, in accordance with the principles of proportionality and materiality, the elements already considered in the previous phase are analysed in-depth;
- Reconciliation between the RAF, Business Plan and Budget: consistency between the RAF and the Business Plan/Budget is sought in all phases of the related preparation procedures through a process of mutual consultation and dialogue that lasts for several months, involving not only the structures of the Chief Risk Officer Governance Area and the Chief Financial Officer Governance Area but also the Business Divisions/Structures;
- Approval of the RAF: in line with the provisions of the applicable regulations, the Board of Directors defines and approves the risk objectives, the tolerance threshold (where identified) and the risk governance policies.

The RAF is updated every year, in view of the preparation of the Annual Budget and/or the Business Plan. During the year, when significant events occur, such as exceptional changes in the market context in which the Group operates, significant changes in the configuration of the Group and/or its strategy or based on direct instructions from the Board of Directors, also through the Risks Committee, the CRO Governance Area assesses whether the RAF is still adequate and, if necessary, proposes partial or full revisions to the framework.
The spread of the COVID-19 pandemic which hit Italy in the first quarter of 2020, the tensions on the financial markets and the uncertainty generated by the health emergency spreading throughout the world made it necessary to carefully analyse the Risk Appetite Framework, regarding both the key dimensions of the Group's overall risk profile and an accurate assessment of all specific risk factors. The results of this analysis identified significant focus points, in line with which numerous limits and risk strategy actions were modified in the second quarter of 2020.
Subsequently, in the third quarter, the acquisition of the UBI Group required a verification of the soundness of the limits on the new and wider scope of the Group, to guarantee the maintenance of the adequate risk control. The underlying principle that guided these activities was the continuity of the post-acquisition Group's risk appetite. In particular, to ensure homogeneous treatment of customers, guarantee current operations and consistent oversight of Group risks, it was necessary to extend to the scope of UBI Banca and IW Bank the framework and regulations inherent in the Credit Risk Appetite (CRA), as well as the governance for managing breaches of the limits in line with that established at Intesa Sanpaolo, and specific limits were defined dedicated to the operations of UBI Banca and IW Bank.
The definition of the Risk Appetite Framework and the consequent operational limits for the main specific risks, the use of risk measurement instruments in credit management and operational risk control processes, the use of capital-at-risk measures for corporate performance reporting and assessment of the internal capital adequacy of the Group represent fundamental milestones in the operational application of the risk strategy defined by the Board of Directors along the Group's entire decision-making chain, down to the single operational units and to the single desks.
The Group sets out these general principles in policies, limits and criteria applied to the various risk categories and business areas, in a comprehensive framework of limits and procedures for governance and control.

The assessment of the comprehensive Group risk profile is conducted annually with the ICAAP, which represents the capital adequacy self-assessment process according to the Group's internal rules, the results of which are then also discussed and analysed by the Supervisor.
In accordance with the ECB requirements, the ICAAP process incorporates two complementary perspectives, both of which are analysed from an actual perspective and, on a prospective basis, in a baseline scenario and an adverse scenario:

- Regulatory perspective, in which the regulatory metrics for the Pillar 1 risks over the medium term (three years) are represented for both these scenarios;
- Financial and operating perspective, in which the management measures and metrics covering all the risks, including the Pillar 2 risks, are presented, with a time horizon of one year in the adverse scenario, which is extended to three years for the baseline scenario.

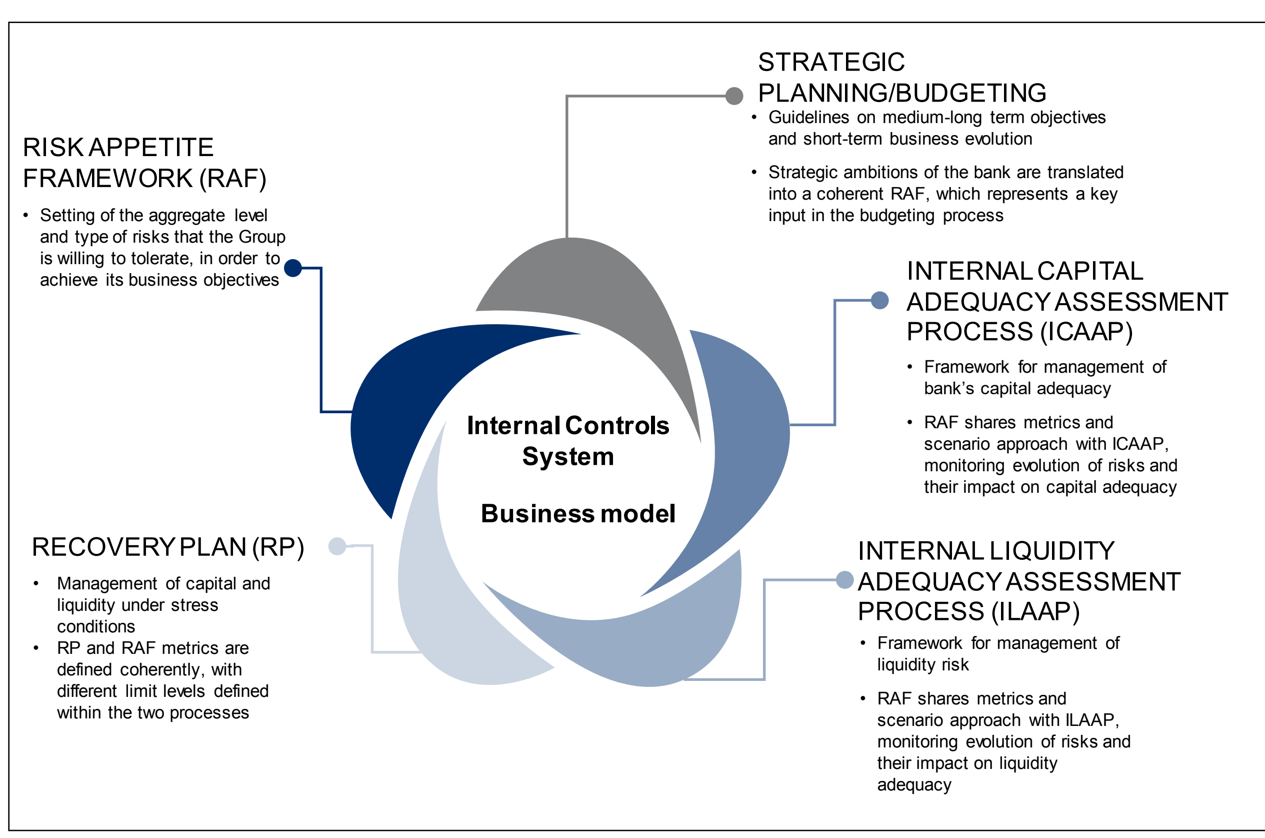
[1] The competent Managerial Committee varies according to the RAF metrics considered:
- for capital adequacy, credit risk and stability of profit metrics, the responsibility lies with the Steering Committee;
- for liquidity and financial risk metrics, the responsibility lies with the Group Financial Risk Committee;
- for non-financial risks metrics, the responsibility lies with the Group Control Coordination, Operational and Reputational Risk Committee.

Specifically for 2020, considering the particular context linked to the pandemic, a specific analysis was conducted of a COVID-19 scenario, on which an additional stress test was also conducted.
The scope of analysis also includes the insurance segment to better capture the specific characteristics of the Group's business model (financial conglomerate).
The quantitative reconciliation between regulatory requirements and management estimates of capital adequacy is set out in a specific document attached to the ICAAP, which reports the differences in scope and definition of risks considered in both areas, as well as the differences, where appreciable, between what is considered in the two perspectives in terms of the main parameters (e.g. confidence interval and holding period) and assumptions (such as those relating to the diversification of effects).

The Group is required to provide a Recovery Plan according to indications received by Supervisory Authorities. The process that oversees the preparation of that plan is an integral part of the regulatory response to cross-border resolution for "too-big-to-fail" banks and financial institutions. The Recovery Plan (introduced by the Bank Recovery and Resolution Directive, transposed into Italian law by Legislative Decree 180 of 16 November 2015) establishes the methods and measures to be used when an institution comes under severe stress and in an early intervention phase, in order to restore financial strength and long-term viability.
Within the annual preparation process for the Recovery Plan, the Chief Risk Officer Governance Area identifies the stress scenarios suitable of highlighting the main vulnerabilities of the Group and its business model (e.g. significant exposure to the domestic market), as well as measuring their potential impacts on the Group's risk profile. In light of the particular economic and financial context, influenced by the pandemic related to COVID-19, for the 2020 Recovery Plan, the ECB granted the Intesa Sanpaolo Group specific Operational Reliefs, in line with the measures envisaged in this context by the EBA ("EBA Statement on Additional Supervisory Measures in the COVID-19 Pandemic" – 22 April 2020). In that context, considering the specific nature of the year, in 2020 banks were permitted to assume the breach of at least one capital or liquidity indicator with only one fast COVID-19-based scenario.
Following the publication of the European Banking Authority's Final Report on Recommendation on the coverage of entities in a group recovery plan (EBA/Rec/2017/02), dated 1 November 2017, Intesa Sanpaolo has adopted specific criteria for the classification of Group companies among:
- Group-relevant;
- Locally relevant;
- Not relevant.

The application of these criteria to the Group scope has led to the Parent Company as well as Fideuram, the VUB Group, Banka Intesa Sanpaolo d.d., Intesa Sanpaolo Bank Ireland, Intesa Sanpaolo Bank Luxembourg, CIB Group, the Privredna Banka Zagreb Group, Banca Intesa Beograd and Intesa Sanpaolo Romania, being classified among the Group-relevant entities. The remaining companies are included in the category of not relevant entities. The above breakdown is consistent with the scope covered by the 2019 Recovery Plan.

The Intesa Sanpaolo Group ensures full consistency of the business model and internal control system with the Business Plan, the Budget, the RAF, the Recovery Plan, the ICAAP and the ILAAP, as illustrated in the diagram below.



Stress Tests

Stress tests are a fundamental risk management tool that enable banks to adopt a forward-looking perspective in their risk management, strategic planning and capital planning activities. As a fundamental element of company decision-making processes, the stress testing must be duly formalised and must have a suitable data infrastructure.
The conduct of the stress tests consists of three basic steps:

- selection and approval of scenarios;
- execution of stress tests;
- approval of results.

Intesa Sanpaolo distinguishes between the following types of stress tests:

- multi-risk exercise, based on scenario analysis, which enables the forward-looking assessment of the simultaneous impact on the Group of multiple risk factors, also taking into account the interrelationships between them and, where applicable, the top management's reaction capacity. This type of exercise, which requires the full revaluation of the impacts, is also used in the Risk Appetite Framework (RAF), Internal Capital Adequacy Assessment Process (ICAAP) / Internal Liquidity Adequacy Assessment Process (ILAAP) and Recovery Plan processes;
- regulatory multi-risk exercise, ordered and coordinated by the supervisor/regulator which defines its general assumptions and scenarios, and requires the full revaluation of the impacts;
- situational exercise, ordered by the top management or by the supervisor/regulator in order to assess the impact of particular events (relating to the geopolitical, financial, economic, competitive environment, etc.) from a forward-looking perspective. Its scope may vary from case to case;
- a single or specific risk exercise to assess the impact of scenarios (or single or more specific risk factors) on specific risk areas.

With specific regard to the regulatory multi-risk exercises, on 19 March 2020 the EBA officially communicated the postponement of EU Wide Stress Test from 2020 to 2021. Up to that time, the Intesa Sanpaolo Group had sent the Advance Data Collection (9 March 2020), i.e. the advance data represented since the end of 2019. For 2021, the Group is taking part in the 2021 EU-Wide Stress Test, the exercise conducted by the European Banking Authority (EBA), in collaboration with the Bank of Italy, the European Central Bank (ECB) and the European Systemic Risk Board (ESRB) on the financial statements of European banks as at 31 December 2020.

Risk culture

Over the last few years, the Bank has increasingly focused on the dissemination of Risk Culture, understood as, firstly, the set of values and resulting behaviours aimed at transversely strengthening aspects of cooperation, information and the assumption of responsibility in relation to the risk inherent in the banking business. The goal is to promote an approach to work focused on innovation, ethical sustainability and the search for pro-active solutions. Particular attention is paid to widespread full awareness of the guiding principles, also by systematically and carefully updating the reference documents on risk (e.g. *Tableau de Bord,* ICAAP, Risk Appetite Framework) and the information set for the exercise of operational activities.
During 2020, several workshops/webinars were promoted on emerging issues with potentially significant impacts on risk (Financial Market Transparency, Crypto Assets, uncertainty in the COVID-19 era, evolution of business and operating models post-COVID-19, information and the post-truth era); several articles were published in the internal magazine Mosaico; and a pilot coaching project was implemented, involving various areas of the bank, focused on cooperation. A new version of the Risk Culture Assessment was also designed, which should be carried out in the two-year period 2021-2022, with a specific focus in the first year on the central functions and on several strategic areas of the network.
Moreover, during 2020, as part of the project of development of the model risk management framework, several training initiatives were implemented to promote and disseminate model risk awareness and gradually extend and implement the framework within the Group. In particular, a lot of internal workshops were held (targeted to the corporate functions involved in the life cycle of the model) and some learning objects carried out within the internal platform (Apprendo).

Risk governance organisation

The policies relating to risk taking and the processes for the management of the risks to which the Group is or could be exposed are approved by the Board of Directors of Intesa Sanpaolo as the Parent Company, with the support of the Risks Committee. The Management Control Committee, which is the body with control functions, supervises the adequacy, efficiency, functionality and reliability of the risk management process and of the Risk Appetite Framework.
The Managing Director and CEO has the power to submit proposals for the adoption of resolutions concerning the risk system and implements all the resolutions of the Board of Directors, with particular reference to the implementation of the strategic guidelines, the RAF and the risk governance policies.

The Corporate Bodies also benefit from the action of some Management Committees on risk management. These Committees operate in compliance with the primary responsibilities of the Corporate Bodies regarding internal control system and the prerogatives of Corporate control functions, and specifically the risk control function. More specifically:

- the Steering Committee, chaired by the Managing Director and CEO, is a Group body with a decision-making, consulting and reporting role, which, within the Group Risk Analysis Session, seeks to ensure the control and management of risks and safeguard business value at Group level, including the internal control system, in implementation of the strategic guidelines and management policies established by the Board of Directors. Its various tasks include examining the RAF proposal for the Group, in preparation for the presentation to the Board of Directors, the analysis of the ICAAP and ILAAP Group packages and of the Risks Tableau de Bord;
- the Group Financial Risk Committee is a technical body with decision-making, reporting and consulting powers, focused both on the banking business (proprietary financial risks for banking and trading books, as well as Active Value Management) and the life and non-life insurance business (result exposure to the trend in market variables and technical

variables). The functions of said Committee are set out in two sessions:
  - the Risk Analysis and Valuation session, chaired by the Chief Risk Officer, responsible for evaluating, *inter alia*, in advance of approval by the Board of Directors, the guidelines on undertaking and measuring financial risks and the liquidity risk of the Group, and proposals for operational limits for financial operations referring to interest rate risk of the banking took, the trading book and valuation risk defining, within the scope of the powers received, the distribution thereof amongst the Group's major units;
  - the Management Guidelines and Operational Choices Session, chaired by the Chief Financial Officer, provides operational guidelines in implementation of the strategic guidelines and risk management policies laid down by the Board of Directors, in respect of management of the banking book, liquidity, interest rate and exchange risk and periodically analyses the overall financial risk profile and exposure to liquidity risk and interest rate risk of the Group and the single Group banks and companies, verifying any limits breach and monitoring the approved come back;
- the Credit Risk and Pillar 2 Internal Models Committee is a technical body with a decision-making, reporting and advisory role. In particular, with regard to the internal risk measurement systems, the Committee acts as the competent Management Committee for:
  - the internal models for the measurement and management of credit risk;
  - the internal models for Pillar 2 risks[2];
- the Group Control Coordination, Reputational and Operational Risk Committee is divided into specific and distinct sessions:
  - the Integrated Internal Control System Session, with a reporting and advisory role, whose objective is to reinforce coordination and the interdepartmental cooperation mechanisms within the Group internal control system, thus promoting the integration of the risk management process;
  - the Operational and Reputational Risk session, with a decision-making, reporting and advisory role, which has the task of supervising the implementation of operational and reputational risk management guidelines and policies in accordance with indications formulated by the Board of Directors and periodically reviewing the overall operational risk profile, monitoring the implementation of the mitigation actions identified in accordance with indications formulated by the Corporate Bodies and/or the Steering Committee.

  The sessions of the Committee are attended by, among others, the Heads of Corporate control functions, as well as the Manager responsible for preparing the Company's financial reports as a permanent member. This contributes to fulfilling the assigned legal obligations and the responsibilities established in the Company Regulations on the supervision of the financial reporting process. It also enables the promotion of the inter-functional coordination and integration of control activities, within its area of responsibility;
- the Group Credit Committee is a technical body with a decision-making and advisory role that has the task of ensuring the coordinated management of issues relating to credit risk, and is organised in two separate sessions (Performing Loans Session and Non-Performing Loans Session). Among other duties, the Committee resolves on the granting, renewal and confirmation of loans within the scope of the powers assigned to it;
- lastly, the Hold To Collect and Sell (HTCS) Sign-Off Committee is tasked with proposing the assumption of market risks put forward by the business structures of the Parent Company or the subsidiaries, on the HTCS shares required for Originate to Share ("OtS") transactions; These transactions consist of syndicated loans originated with the intention of being distributed to third-party operators on the primary or post primary market and which provide for a holding period less than or equal to 12 months at the time of their origination.

The Chief Risk Officer Governance Area – located directly reporting to the Managing Director and CEO – in which the risk management functions are concentrated, including the controls on the risk management and internal validation process, represents a relevant component of the "second line of defence" of the internal control system that is separate and independent from the business supporting functions.
This Area is responsible for governing the macro process of definition, approval, control and implementation of the Group's Risk Appetite Framework with the support of the other corporate functions involved, as well as assisting the Corporate Bodies in setting the Group's risk management guidelines and policies, in accordance with the company's strategies and objectives, and coordinates and verifies their implementation by the responsible units of the Group, also within the various corporate areas, in addition to ensuring the management of the Group's overall risk profile, including the related to the model risk, by establishing methods and monitoring exposure to the various types of risk and reporting the situation periodically to the Corporate Bodies. It also carries out the II level controls on credit and other risks, and ensures the validation of internal risk measurement systems.
To that end, the Chief Risk Officer Governance Area is broken down into the following Organisational Units:
- Credit Risk Management Head Office Department;
- Financial and Market Risks Head Office Department;
- Enterprise Risk Management Head Office Department;
- Internal Validation and Controls Head Office Department;
- Foreign Banks Risk Governance;
- Coordination of Risk Management Initiatives.

The Chief Risk Officer Governance Area is responsible for operational implementation of the strategic and management guidelines along the Bank's entire decision-making chain, down to individual operational units. The risk control functions of subsidiaries with a decentralised management model and the representatives of the Parent Company's risk control function at subsidiaries with a centralised management model report to it.

The Chief Compliance Officer Governance Area, which reports directly to the Managing Director and CEO, in a position that is

[2] The scope does not include the Pillar 2 models for the measurement and quantification of financial risks in the banking book, which already come under the scope of the Group Financial Risk Committee and the Pillar 2 models for the measurement and quantification of operational and reputational risks, which, instead, come under the scope of the Operational and Reputational Risk Controls Coordination Committee. However, it does include the models used for stress testing and forward-looking income statement valuations.

independent from operating departments and separate from internal auditing, ensures the monitoring of the Group regulatory compliance risk, including conduct risk. Within the Risk Appetite Framework, the Chief Compliance Officer Governance Area (i) proposes the statements and limits set for compliance risk and (ii) collaborates with the Chief Risk Officer Governance Area in the monitoring and control of non-financial risks for compliance purposes and, if the set limits are exceeded, in the identification/analysis of events attributable to non-compliance with regulations and in the identification of appropriate corrective measures.
The Chief Compliance Officer Governance Area is broken down into the following Organisational Units:
- Regulatory Compliance Retail and Private Banking Office Department;
- Regulatory Compliance Corporate and Investment Banking Head Office Department;
- Compliance Governance and Control Head Office Departments;
- Anti Financial Crime Head Office Department, which is tasked, *inter alia,* with the duties and responsibilities of the anti-money laundering function;
- Compliance Digital & Data Transformation.

The Parent Company performs a guidance and coordination role[3] with respect to the Group companies, aimed at ensuring effective and efficient risk management at Group level, exercising responsibility in setting the guidelines and methodological rules for the risk management process, and pursuing, in particular, integrated information at Group level to the Corporate Bodies of the Parent Company, with regard to the completeness, adequacy, functioning and reliability of internal control system. For the corporate control functions in particular, there are two different types of models within the Group: (i) the centralised management model based on the centralisation of the activities at the Parent Company and (ii) the decentralised management model that involves the presence of locally established corporate control functions that conduct their activities under the direction and coordination of the same corporate control functions of the Parent Company, to which they report in functional terms.
Irrespective of the control model adopted within their company, the corporate bodies of the Group companies are aware of the choices made by the Parent Company and are responsible for the implementation, within their respective organisations, of the control strategies and policies pursued and promoting their integration within the Group controls.
With regard to the UBI Group, to translate the Parent Company's mentioned steering and coordination duties into practice, pending full integration, a decentralised management model has been applied, given the presence of local company functions with standing and resources that can guarantee sound and prudent management of the subsidiary's risk. In particular, the corporate control functions of the Parent Company and the subsidiary are expediting their sharing of approaches and tools to complete the integration of those frameworks, in order to best take advantage of possible synergies.

[3] In this regard, it is specified that Intesa Sanpaolo does not exercise management and coordination over Risanamento S.p.A. or its subsidiaries pursuant to Article 2497 et seq. of the Italian Civil Code.

The internal control system

To ensure a sound and prudent management, Intesa Sanpaolo combines business profitability with an attentive risk-acceptance activity and an operating conduct based on fairness.
Therefore, the Bank, in line with legal and supervisory regulations in force and consistently with the Corporate Governance Code for Listed Companies, has adopted an internal control system capable of identifying, measuring and continuously monitoring the risks typical of its business activities.

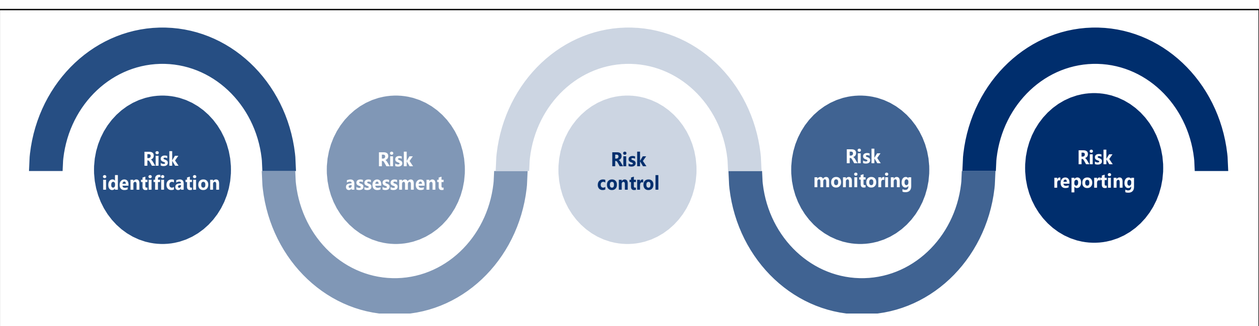
Further information on the Intesa Sanpaolo internal control system may be found in Part E of the Notes to the 2020 consolidated financial statements (available for consultation from the "Financial Reports" section of the website www.group.intesasanpaolo.com) and in the Report on Corporate Governance and Ownership Structures (available for consultation from the "Governance" section of the same Group website).

Scope of risks

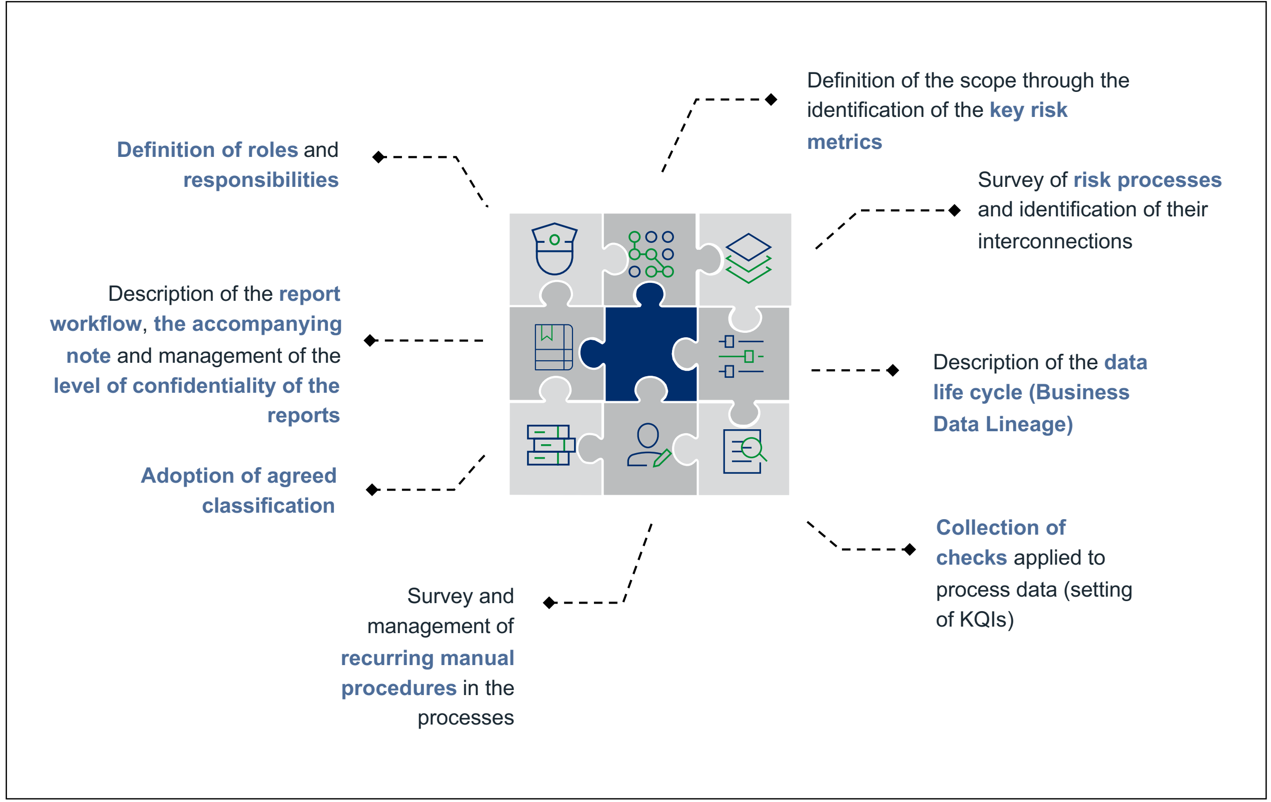
The risks identified, covered and incorporated within the Economic Capital are as follows:

- credit and counterparty risk. This category also includes concentration risk, country risk and residual risks, both from securitisations and uncertainty on credit recovery rates;
- market risk (trading book), including position, settlement and concentration risk on the trading book;
- financial risk of the banking book, mostly represented by interest rate and foreign exchange rate risk;
- operational risks;
- insurance risk;
- strategic risk;
- risk on real estate assets owned for whichever purpose;
- risk on equity investments not subject to line-by-line consolidation;
- risks relating to defined-benefit pension funds;
- model risk.

Risk hedging, given the nature, frequency and potential impact of the risk, is based on a constant balance between mitigation/hedging action, control procedures/processes and capital protection measures, including stress tests.
Special attention is dedicated to managing the short-term and structural liquidity position by following specific policies and procedures to ensure full compliance with the limits set at the Group level and operating sub-areas in accordance with international regulations and the risk appetite approved at the Group level.
The Group also attaches great importance to the management of reputational risk, which it pursues not only through organisational units with specific duties of promotion and protection of the company image, but also through dedicated processes for the identification and assessment of reputational risk and the creation of specific reporting flows. In addition, starting in 2018, a specific add-on for economic capital has been introduced for operational risk, determined on the basis of operational losses, to strengthen the protection against possible reputational repercussions.
Lastly, particular attention is also given to the control of environmental, social and governance (ESG) risks associated with the activities of its corporate customers and the economic activities the Group is involved in.
Over the years, the Group has developed and implemented the necessary structural and operational improvements for integrated risk reporting that is as complete, accurate and regular as possible, in order to support senior management.



The risk monitoring processes have undergone a progressive strengthening of the Data & Reporting Governance controls, also in compliance with the applicable regulations ("Principles for effective risk data aggregation and risk reporting - BCBS239"). The Chief Risk Officer Governance Area has planned actions in specific areas, including the adoption of agreed classifications and uniform practices for the description of the life cycle of the data within the main risk monitoring processes. In 2020, a process was also initiated for the convergence towards the Group's target framework developed and regulated by the Data Office Department, taking into account the Area's specific characteristics. More generally, the strengthening of Data & Reporting Governance has involved the aspects detailed in the diagram below.



The Group has also strengthened its focus on data quality control, defining processes, roles and responsibilities, reference classifications (quality dimensions) and identifying the related support instruments.
The scope of Data & Reporting Governance includes: credit risk, market and counterparty risk, interest rate risk of the banking book, liquidity risk, operational risks and the risk integration process.
Assessments of each single type of risk for the Group are integrated in a summary amount – the Economic Capital – defined as the maximum "unexpected" loss the Group might incur over a year. This is a key measure for determining the Group's financial structure and its risk tolerance, and guiding operations, ensuring the balance between risks assumed and shareholder return. It is estimated on the basis of the current situation and also as a forecast, based on the budget assumptions and projected economic scenario. The assessment of capital is included in business reporting and is submitted quarterly to the Steering Committee, the Risks Committee and the Board of Directors, as part of the Group's Risks Tableau de Bord.
In addition to managing the risks described above, Intesa Sanpaolo pays close attention to the identification and monitoring of specific areas of emerging risk, which, in the medium term, could compromise the achievement of the Group's strategic objectives or significantly influence its financial position and results.

For the purposes described above, the Intesa Sanpaolo Group uses a wide-ranging set of tools and techniques for risk assessment and management, described in detail in this document.

With regard to the detail of the different types of risk governed by Basel 3 Pillar 3 Disclosure (credit, counterparty, market, interest rate, liquidity and operational risk), reference is made to the individual sections of this document. With regard to insurance risk, outside the prudential scope, reference is made to Part E of the Notes to the 2020 consolidated financial statements, available for consultation in the "Financial Reports" section of the Group website www.group.intesasanpaolo.com.

In addition to the risks discussed above, the Group has identified and monitors the following other risks.

Strategic risk

The Intesa Sanpaolo Group defines current or prospective strategic risk as risk associated with a potential decline in profits or capital due to changes in the operating context, misguided Company decisions, inadequate implementation of decisions, or an inability to react sufficiently to changes in the competitive scenario.
The Group's response to strategic risk is represented first and foremost by policies and procedures that call for the most important decisions to be deferred to the Board of Directors, supported by a current and forward-looking assessment of risks and capital adequacy. The high degree to which strategic decisions are made at the central level, with the involvement of the top corporate governance bodies and the support of various company functions ensures that strategic risk is mitigated.
An analysis of the definition of strategic risk leads to the observation that this risk is associated with two distinct fundamental components:

- a component associated with the possible impact of misguided Company decisions and an inability to react sufficiently to changes in the competitive scenario: this component does not require capital, but is one of the risks mitigated by the ways in which strategic decisions are reached and by their centralisation with top management, where all significant decisions are always supported by specific activities aimed at identifying and measuring the risks implicit in the initiative;

- the second component is more directly related to business risk; in other words, it is associated with the risk of a potential decline in profits as a result of the inadequate implementation of decisions, changes in the operating context and changes in the cost of funding. This component is handled not only by using systems for regulating Company management, but also via specific internal capital, determined according to a margin volatility simulation approach, which expresses the risk arising from the business mix of the Group and its Business Units.

Strategic risk is also assessed as part of stress tests based on a multiple-factor model that describes the relations between changes in the economic scenario and the business mix resulting from planning hypotheses, with analyses to assess the impacts on both interest income and margins from the performance of net fees and commissions.

Reputational risk

The Intesa Sanpaolo Group attaches great importance to reputational risk, namely the current and prospective risk of a decrease in profits or capital due to a negative perception of the Bank’s image by customers, counterparties, shareholders, investors and Supervisory Authorities.

The Intesa Sanpaolo Group actively manages its image in the eyes of all stakeholders, by engaging all its Organisational Units and seeking robust, sustainable growth capable of creating value for all stakeholders. In addition, the Group seeks to minimise possible negative effects on its reputation through rigorous and comprehensive governance, proactive risk management and guidance and control of its activities.

The overall management of reputational risk is pursued primarily:

- through compliance with standards of ethics and conduct and self-governance policies. The Code of Ethics adopted by the Group contains the core values that Intesa Sanpaolo intends to commit itself to and sets out the voluntary principles of conduct for dealings with all stakeholders (customers, employees, suppliers, shareholders, the environment and, more generally, the community) with even broader objectives than those required by current legislation. The Group has also issued voluntary conduct policies (human rights policy, environmental policy and arms industry policy) and adopted international principles (UN Global Compact, UNEP FI, Equator Principles) aimed at pursuing respect for the environment and human rights;
- systematically and independently by the company structures tasked with safeguarding the company reputation, which maintain relations with stakeholders, within their respective areas of responsibility;
- across the various corporate functions, through the Reputational Risk Management processes governed by the Chief Risk Officer Governance Area;
- through an integrated monitoring system for primary risks, to limit exposure to those risks, and to comply with the related limits contained in the Risk Appetite Framework.

The Group aims to achieve constant improvement of reputational risk governance also through an integrated compliance risk management system, as it considers compliance with the regulations and fairness in business to be fundamental to the conduct of banking operations, which by nature are founded on trust.

In order to safeguard customers’ interests and the Group’s reputation, specific attention is also devoted to establishing and managing customers’ risk appetite, pursued through the identification of the subjective and objective traits of each customer. The assessments of adequacy during the process of structuring products and rendering advisory services are supported by objective information, that considers the true nature of the risks borne by customers when they undertake derivative transactions or make financial investments.

More specifically, the sale of financial products is also governed by specific preventive risk assessment from the standpoint of both the Bank (along with risks, such as credit, financial and operational risks, that directly affect the owner) and the customer (portfolio risk, complexity and frequency of transactions, concentration on issuers or on foreign currency, consistency with objectives and risk tolerance profiles, and knowledge and awareness of the products and services offered).

The abovementioned Reputational Risk Management (RRM) processes are coordinated by the Chief Risk Officer Governance Area and involve control, specialist and business functions, for various purposes. These processes include:

- Reputational Risk Assessment, which seeks to identify the most significant reputational risk scenarios that the Intesa Sanpaolo Group is exposed to. This process is implemented annually and is aimed at gathering the opinion of Top Management regarding the potential impact of these scenarios on the Group’s image, in order to identify appropriate communication strategies and specific mitigation actions, where necessary;
- ESG & Reputational Risk Clearing, which is aimed at the ex-ante identification and assessment of the potential reputational risks associated with the most significant business operations, the main capital budget projects and the selection of the Group’s suppliers/partners;
- Reputational Risk Monitoring, aimed at monitoring the evolution of Intesa Sanpaolo’s reputational positioning (on the web, for example) also with the aid of external analyses.

ESG (Environmental, Social and Governance) risks

ESG risk stems from the potential negative impacts of a company or activity on the environment, people and communities and also includes risks related to corporate governance. ESG risk may therefore affect profits, reputational profile, and credit quality and may lead to legal consequences.

The Intesa Sanpaolo Group is aware of the influence that a banking group can have in terms of sustainability in both the short and long term and pays particular attention to environmental, social and governance risks associated with the activities of its corporate customers and inherent in the sectors considered sensitive, i.e. with a significant ESG risk profile.

Intesa Sanpaolo’s ESG risk management model consists of:

- a reference regulatory framework, based on the Group’s general values and principles, set out in particular in the “Code of Ethics” and the “Principles of Human Rights”, which defines the general criteria for limiting and excluding lending for the business sectors considered most sensitive to ESG risks. This is accompanied by self-governance policies that introduce specific criteria for operations in certain sensitive sectors (“Rules for lending operations in the coal sector” and “Rules for operations in the armaments sector”);
- a process for assessing the ESG risks associated with the Group’s operations, in particular with regard to the financing of corporate customers, which is included in the associated decision-making processes. In this context, particular attention is paid to loans subject to the Equator Principles, an association that the Group has been a member of since 2007, and

to transactions classified as Most Significant Transactions.

One of the most important ESG risks is climate change risk, in relation to which projects are underway for its integration into the overall risk management framework, in response to regulatory developments. To this end, a number of scenario analyses were conducted within the international initiatives in 2020 (see the Emerging Risks paragraph in this section for more details).

Risk on owned real-estate assets

The risk on owned real-estate assets may be defined as risk associated with the possibility of suffering financial losses due to an unfavourable change in the value of such assets and it is thus included in the category of banking book financial risks. Real-estate management is highly centralised and represents an investment that is largely intended for use in company operations. The degree of risk in the portfolio of owned properties is represented by calculating an economic capital based on the volatility observed in the past in indexes of mainly Italian real estate prices, the main type of exposure associated with the Group's real-estate portfolio, with a degree of granularity of geographical location and intended use appropriate to the real estate portfolio at the reporting date.

Risk on equity investments not subject to line-by-line consolidation

The risk in the equity investment portfolio is related to the possibility of incurring economic losses due to the adverse changes in values of investments not subject to line-by-line consolidation.

The scope considered consists of the equity instruments held in financial and non-financial companies, and includes financial investment instruments, commitments to purchase, and derivatives with underlying equity instruments and equity funds.

The model used to estimate the Economic Capital is based on a PD/LGD approach similar to the credit risk portfolio model and it is used for the stand-alone equity investment portfolio. The applicable LGD is the regulatory LGD, whereas the model's other parameters are the same as those used in the portfolio model for credit risk.

Risk related to defined-benefit pension funds

The risk related to defined-benefit pension funds is attributable to the possibility of having to increase the reserve that the Parent Company Intesa Sanpaolo maintains to guarantee the benefits of those pension funds, based on an adverse change in the value of the assets and/or liabilities of the pension funds concerned. This risk is fully considered within the assessment of capital adequacy, measured and controlled both with respect to Economic Capital, using an econometric model for the main macroeconomic variables, as well as to prospective baseline and stress scenarios.

Model risk

Model risk is defined as the potential loss an institution may sustain, as a consequence of decisions that could be principally based on the output of internal models, due to errors in the development, implementation or use of such models. In continuity with previous years, within 2020 ICAAP Report, the Internal Validation and Controls Head Office Department updated the model risk assessment (expressed synthetically through a score) of the methodologies supporting the measurement of Pillar 1 and Pillar 2 risks that also contribute to the calculation of the Economic Capital and provided the Enterprise Risk Management Head Office Department with the parameters for the quantification of the the model risk economic capital buffer.

Emerging risks

The strengthening of the overall risk management system also involves the identification, understanding and monitoring of so-called emerging risks, i.e. risks characterised by components that are little-known or rapidly evolving, potentially significant in the medium term to the Group's financial position and business model, even though their effects are not easy to assess and cannot yet be fully integrated into the most consolidated risk management frameworks.

The identification of these types of risks derives primarily from the continuous analysis of the external environment and the main findings gathered by the risk management function during the identification and assessment processes, but also involves comparison with peers and with market best practices, as well as with the Bank's other control/business functions.

In this context, Intesa Sanpaolo attributes particular importance to risks associated with the process of digital revolution, third parties, climate change and geopolitical and geoeconomic tensions.

- The COVID-19 pandemic has been an exceptional accelerator in the digitalisation process, leading to a significant increase in the use of internet banking and app-based services. This trajectory will continue in the medium- to long-term, towards a consolidation of the operational resilience of financial institutions through a coordinated process of investment in digitalisation and expenditure to strengthen the security and reliability of technological infrastructure.
  In this scenario, there has also been an increase in cybercrimes against customers, who are increasingly victims of fraudulent activities outside the bank's responsibility (e.g. phishing campaigns, illegal use of the bank's telephone numbers and text messages, dissemination of malware, etc.), aimed at stealing their money and assets.
  The Intesa Sanpaolo Group seeks to limit this problem through: ongoing customer awareness raising campaigns concerning cyber-fraud; advocacy with the Authorities (AGCOM, ABF, Bank of Italy) and Telco operators to combat the new techniques (e.g. Swap SIM, Spoofing, Swap ALIAS) used by fraudsters to increase the effectiveness of the scams; closer cooperation with institutions, trade associations and various units of the Police Force; and continuous updating of the rules and anti-fraud systems for combating the new techniques.
- As a result of COVID-19, the Intesa Sanpaolo Group was also required to ensure the continuity of its business and safeguard the health of its employees by making significant changes to its processes. In this regard, the Group will be called upon to renew its medium- to long-term priorities to adapt them to the new normal. It is therefore reasonable to assume that further areas of risk may emerge from this process, related to further changes in working methods (e.g. remote working and web collaboration, and adaptation of physical spaces), the launch of new products and services, and the establishment collaboration or competition relationships with new market players (e.g. FinTech). Outsourcers and suppliers may also be exposed to such risks, with potential repercussions for the banks they serve. In the medium-/long-term, potential concentration risks arising from the use of best-of-breed players (e.g. cloud service providers), for the services required to achieve digitalisation objectives, will also need to be assessed.
- The Intesa Sanpaolo Group is aware that it has a direct impact on the environment (due, for example, to its consumption of resources) and an indirect impact (through its business activities) and has long been attentive to climate change risk,

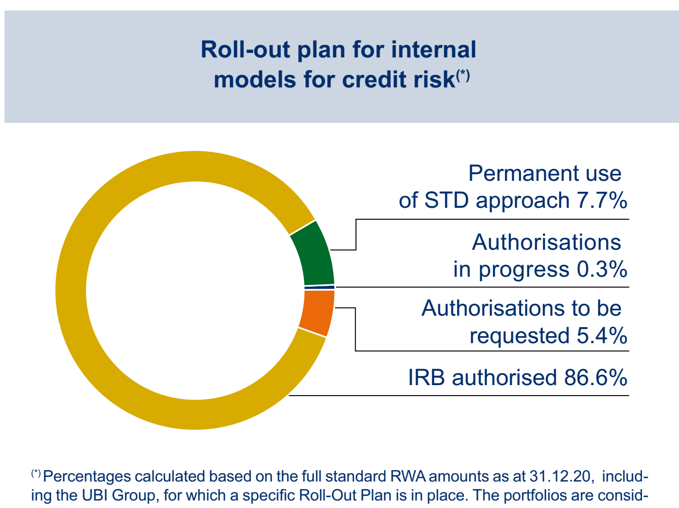
i.e. all the risks associated with climate change caused by the accumulation of greenhouse gases in the atmosphere. For example, following the signing of the Paris agreement, it is likely that reducing greenhouse gases (GHG) could have significant financial implications on certain sectors (e.g. reduction/abandonment of fossil fuels) and therefore on companies operating in these sectors, with which the Group has business relations.
The Group therefore intends to actively monitor the effects of climate change, and in 2018 it decided to support the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), committing itself to the dissemination of transparent reporting on risks and opportunities related to this change. In 2019, Intesa Sanpaolo added a qualitative statement to the RAF, undertaking to develop its integration into the existing risk management framework. In 2019, Intesa Sanpaolo also began to participate in the international working group "TCFD Pilot Banking Group Phase II" coordinated by UNEP FI, tasked with developing and testing shared methods for assessing climate change risk for bank portfolios. The exercise, which was completed in 2020, considered both transition risk, i.e. the financial risk that may arise from the process of transitioning to a low-carbon economy, and the physical risk associated with the environmental impacts of climate change (e.g. higher sea levels due to an increased average temperature or extreme climate events such as floods and droughts). The programme involved approximately 40 banks on five continents, which are working to implement the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). The scenario analysis conducted involved a part of the Corporate loan portfolio relating to the Oil & Gas and Power & Utilities sectors and was performed using a top-down approach with the addition of bottom-up components determined at individual borrower level. The results of this exercise contributed to the preparation of the document published by the UNEP FI "From Disclosure to Action" and "Charting a New Climate".
In addition, a first application of the EU Green Taxonomy was implemented in 2020, as part of the EBA pilot sensitivity exercise on climate risk for the loan portfolio which includes corporate counterparties domiciled in the EU. The exercise involved 29 banks on a voluntary basis and also allowed the EBA to conduct an initial sensitivity analysis of climate change risk (transition risk). As a result of the skills acquired in the course of these exercises, the Group has been able to lay the foundations for the development of a structured methodological approach to the scenario analysis, to be applied to its scope of operations. With regard to the direct environmental risks for Intesa Sanpaolo, and in particular to hydrogeological risk (floods and landslides), which also relates to climate change and the possible occurrence of crisis scenarios in Italy which could have repercussions on Intesa Sanpaolo's properties, a series of structures is to be activated. In order to ensure business continuity in the areas most affected by the inclement weather, the crisis delegates of local and central structures are activated for timely reporting of critical situations, with particular regard to delays in the transport of valuables and correspondence, difficulties for personnel in reaching their workplaces, operational issues and problems with branch physical plant. In parallel, the Critical Events Management structure is activated from the first weather alert, along with, in very serious disaster situations, the Emergency Management Operations Centre of the Business Continuity Management Department, which monitors the situation and assesses whether to close facilities temporarily and to take any additional action.

- The outlook for global economic growth shows significant vulnerabilities and downside risks, primarily relating to the uncertainty of the recovery of trade and global manufacturing and geopolitical tensions, which remain high. In addition, the spread of the COVID-19 disease, with its implications for public health, economic activity and commerce, is an element capable of exerting a significant negative effect on global growth.

The Basel 3 regulations

In view of compliance with the reforms of the previous accord by the Basel Committee ("Basel 3"), the Intesa Sanpaolo Group has undertaken adequate project initiatives, expanding the objectives of the Basel 2 Project in order to improve the measurement systems and the related risk management systems.
With regard to the acquisition of the UBI Group and the impacts on risk management and Pillar 1 internal models for credit, market, counterparty and operational risk, the Group has carried out the necessary analyses and actions, and, with a view to the integration of the former UBI Group into Intesa Sanpaolo, in September 2020 it sent the strategic return to compliance plan to the competent Supervisory Authorities, aimed restoring regulatory compliance by extending the Parent Company's internal models to the portfolios of UBI Banca and, where appropriate, of its subsidiaries. In this context, the temporary use of the internal models for credit and operational risk (Pillar 1) of the former UBI Banca Group was also requested for supervisory reporting purposes at consolidated level until full integration.
With regard to credit risk, there were no new authorisations relating to the internal models with respect to the situation as at 31 December 2019.
The periodic updating and alignment to changes in regulations governing IRB systems and their extension to international subsidiaries (according to the Group's roll-out plan) continue in accordance with the Regulatory Roadmap agreed with the Supervisory Authorities.

With regard to the progress of the internal models roll-out plan for the internal models for credit risk, the share of exposures authorised for the IRB system is 86.6% of the loan portfolio. The pending authorisations, concerning the extension of the internal models to the Retail SME portfolio of the former Banca Apulia and the validation of the internal models for the leasing and factoring transactions of the Retail SME portfolio, represent 0.3% of the portfolio, while requests to be made for the remaining portfolios of the Group's domestic and international banks represent 5.4% of the portfolio. For the remainder, equal to 7.7%, the permanent use of the Standardised approach has been reported to the supervisory authorities.



(*) Percentages calculated based on the full standard RWA amounts as at 31.12.20, including the UBI Group, for which a specific Roll-Out Plan is in place. The portfolios are considered to be covered by IRB models when the authorisation has been received, from the Supervisory Authority, for use of the internal model for at least one of the risk parameters.

With regard to counterparty risk, the Banking Group improved the measurement and monitoring of the risk, by refining the instruments required under Basel 3.
For reporting purposes, the Parent Company is authorised to use the internal models approach for the reporting of the requirement with respect to counterparty risk both for derivatives and for SFTs (Securities Financing Transactions, i.e. repos and securities lending). This authorisation was obtained for derivatives from the first quarter of 2014, and for SFTs from the report as at 31 December 2016.
For management purposes, the advanced risk measurement approaches have been implemented for the OTC derivatives of the Parent Company since 2010 and were subsequently extended in 2015 to Securities Financing Transactions.

With regard to operational risk, the Group obtained authorisation to use the Advanced Measurement Approach (AMA – internal model) to determine the associated capital requirement for regulatory purposes, with effect from the report as at 31 December 2009.
The annual Internal Capital Adequacy Assessment Process (ICAAP) Report, based on the extensive use of internal approaches for the measurement of risk, internal capital and total capital available, was approved and sent to the ECB in April 2020.

Other risk factors

In addition to the above risks, the Intesa Sanpaolo Group is carefully assessing the following risk factors.

Brexit

On 31 January 2020, the United Kingdom (UK) officially left the European Union (EU) on the basis of the Withdrawal Agreement reached by the UK and EU in October 2019 and ratified by both parties in early 2020. An 11-month transition began on 1 February 2020, which ended on 31 December 2020, during which the EU and the UK negotiated the terms of their future relations. After several rounds of negotiations during the year, on 24 December 2020, the European Commission and the UK Government reached an Agreement on Trade and Cooperation between the EU and the UK (Agreement), which was provisionally applied at the end of the transitional period pending completion of the process for its entry into force. The Agreement only minimally regulates financial services, leaving the burden of the mitigation measures primarily to the parties affected.

The Intesa Sanpaolo Group – present in the UK through its IMI Corporate & Investment Banking, Asset Management and Private Banking Divisions – which through a dedicated interfunctional project had long been prepared, from a prudential perspective, first for the withdrawal of the United Kingdom from the EU without a Withdrawal Agreement (Hard Brexit), and subsequently for the scenario in which, even if the UK and EU had reached an agreement on future relations on 31 December 2020, that agreement did not cover financial services.

In this regard, the project implemented a “Brexit Strategy” to cover the risks arising from Brexit and ensure operating and business continuity by preparing contingency plans, also in the worst-case scenario of a no deal. In particular, it managed the following main risks by planning and overseeing the appropriate mitigation measures:

- *Loss of the European financial services passporting regime*
  After obtaining the necessary authorisations from the European supervisor, the Group prepared and submitted a new application in October 2020 to the UK supervisor for authorisation of the single branch in the UK resulting from the merger of ISP and BIMI (effective date of 20 July 2020). While awaiting the formal authorisation from the UK Supervisor, the enrolment in the Temporary Permission Regime (TPR), granted by the UK authorities, allows the Group entities present in the UK to continue to operate in the United Kingdom for a maximum of three years.
  The Group has also prepared a contingency plan to ensure business continuity for operations and assets that, in the absence of passporting, could no longer be managed by branches in the UK, providing for their transfer to Group entities in the EU.
- *Limitations on the access to central counterparties (CCPs) located in UK by EU branches*
  The Group has taken measures to extend its membership in European CCPs for Interest Rate Derivatives (IRD,) Credit Default Swaps (CDS), Exchange Trade Derivatives (ETD), Bonds and Repos, in order to ensure business continuity.
  In addition, with regard to positions held with UK CCPs, a risk neutralisation strategy has been implemented, resulting in a significant reduction in regulatory capital.
- *Contract discontinuity risk*
  The Group is continuing the repapering with counterparties to OTC derivatives contracts not cleared through a CCP and entered into with counterparties based in the United Kingdom, and the redrafting of the contractual terms of other types of agreements (supply, outsourcing, etc.) has been completed. It has also prepared IT and organisational solutions to block operations for any contracts not renegotiated by the end of the transition period. Appropriate safeguards have also been ensured for the transfers of personal data in accordance with Regulation (EU) 2016/679 (GDPR).
- *Risk of non-compliance with UK legislation (Senior Managers Regime and Reporting Requirements)*
  The Group has completed the process of achieving compliance with United Kingdom legislation. In particular, the Group has met the requirements of the Senior Managers and Certification Regime (SM&CR), which provides for the appointment, subject to approval by the UK supervisor, of several top management personnel (“Senior Managers”) with precise areas of responsibility for branches operating in the United Kingdom as third-country branches. In addition, the Group has implemented the new reporting requirements to comply with the reporting obligations applicable to third-country branches present in the United Kingdom and established by the European regulations on operations in markets and financial instruments.
- *Risk of disruption of operations with market counterparties based in the UK*
  The Group has completed the onboarding process for the main EU-based counterparties/brokers (Organised Trading Facilities included) to which UK-based entities have decided to migrate all or part of their operations in a no-deal scenario.
- In the first half of 2021 the Intesa Sanpaolo Group will closely monitor the Brexit post go-live situation, together with any negotiation developments affecting financial services and the management of residual activities.

Interest Rate Benchmark Reform

In recent years, the European benchmark rates have been undergoing extensive reform, largely due to the introduction of the European regulation on benchmarks (Benchmarks Regulation, Regulation (EU) 2016/1011), published in 2016 and in effect since January 2018. This regulation, which was partially revised at the end of 2020, establishes precise rules for contributors, users and administrators of benchmarks and also requires that the fixings for those benchmarks be determined, as far as possible, on the basis of actual transactions concluded on the relevant markets, in accordance with the recommendations from the Financial Stability Board and the IOSCO Principles, in view of the central role of the benchmark rates for the proper functioning of the global financial system.

In the specific case of the short-term benchmark rates declared critical by the European authorities, reforms relating to the following were required:

- Euribor: the revision by the EMMI (European Money Market Institute) of the method for determining fixings (“hybrid” method), using transactions concluded on the unsecured money market of up to 12 months by provider banks, where available, came into full effect from November 2019. The reform was managed in full continuity with regard to the measurement of the market of reference, the determination and the use of fixing. As required by the Benchmark

regulation, the methodology was revised towards the end of 2020 and some detailed aspects are due to be revised during 2021 to make the hybrid methodology as robust as possible;

- Eonia: with effect from October 2019, the fixings are determined by calculating them using the new risk-free rate published by the European Central Bank (€STR rate), identified based on the overnight transactions concluded by the major European banks and reported according to the rules imposed by the Money Market Statistical Reporting (EU 2014/1333). The Eonia fixing will be published until 3 January 2022 and will then be permanently replaced by €STR plus a fixed spread. The €STR rate also constitutes the basis for the calculation of the Euribor fallback rate, to be indicated in the contracts and to be used in the event of any future permanent cessation of publication of the Euribor (curve types and convention are under discussion and the guidance will only become clearer in 2021).

Outside the Eurozone, the UK authorities had already announced some time ago that the publication of the Libor would be discontinued at the end of 2021 and there are already alternative risk-free rates available in the individual nations, which will gradually replace the Libor. Given the complexity of the transition, with potentially different rules in the individual jurisdictions, an assessment will be made, on the basis of the outcome of a public consultation launched in late 2020, as to whether, solely for the purpose of enabling the transition for the existing agreements, it would be permissible to envisage an end date of 2023 for the Libor.

In recent years, Intesa Sanpaolo has closely monitored the developments relating to benchmarks, and in 2016 it launched a dedicated project involving the participation of all the corporate functions involved in various capacities.

The project work continued in 2020, focusing on the following aspects in particular:

- discounting switch from Eonia to €STR for transactions subject to clearing, according to the timescales dictated by European and U.S. clearing houses (July and October 2020);
- start of bilateral negotiations with counterparties for the migration of Credit Support Annexes (CSAs) from Eonia to €STR;
- progressive greater use of derivatives in respect of the €STR rate for hedging needs;
- preparation of activities at all levels to ensure the progressive transition from the Libor to the new risk-free rates, including through reinforcement of the governance of the Libor project and the benchmark users project to cover regulatory and business aspects, with support from specialist functions. Participation in the work by the international hub branches as users of foreign currency rate benchmarks was also reinforced;
- continuous reporting to the Subsidiaries, including those based outside Italy, and, from November 2020, alignment with UBI for synergistic management of ongoing activities;
- monitoring of developments in the International Swaps and Derivatives Association (ISDA) for the adoption of new protocols and updating of the contractual terms to include fallback clauses in the agreements;
- collaboration with the Italian authorities in support of the development of the new risk-free rates market;
- participation in public consultations at international level, also providing input to the Italian Banking Association to produce feedback at national level;
- providing feedback on transition readiness for foreign authorities in countries where Group companies are present, and to the ECB Joint Supervisory Team for general aspects related to the Group;
- delivery of training for colleagues, through the Apprendo platform and remote classrooms.

Intesa Sanpaolo also continued to take part in various initiatives, including working groups at the European level organised by EMMI and the European Central Bank (in collaboration with the EC and ESMA).

In this latter area in particular, Intesa Sanpaolo also acted in 2020 as a voting member and participant in individual project streams in the working group on euro risk free rates, in which it has also held the new role of Ambassador for Italy since 2020. The main activities of this working group included the designation of €STR as the new benchmark for the short-term money market and the publication of recommendations for the transition from Eonia to €STR and the management of relations with the IASB and the EC, and, at the end of 2020, the working group launched two highly important public consultations for the future structure of fallback rates.

As stated in the “Accounting policies” chapter of the 2020 Financial Statements, the Intesa Sanpaolo Group elected to apply Regulation 34/2020 of 15 January 2020 in advance in its 2019 Financial Statements. This regulation adopted the document issued by the IASB on "Interest Rate Benchmark Reform (amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures)", which introduced several amendments regarding hedges (hedge accounting) designed to prevent uncertainties about the amount and timing of the cash flows arising from the rate reform from resulting in the discontinuation of existing hedges and difficulties in designating new hedging relationships.

Section 2 - Scope of application

Qualitative disclosure

Name of the bank to which the disclosure requirement applies

Intesa Sanpaolo S.p.A., Parent Company of the Banking Group "Intesa Sanpaolo", included in the National Register of Banking Groups.

Outline of differences in the basis of consolidation for accounting and prudential purposes

The disclosure contained in this document refers solely to the Banking Group as defined by the prevailing Supervisory Provisions.
The scope of consolidation of the Banking Group (or the "prudential" scope of consolidation) differs from the scope of consolidation of the financial statements (the complete list of consolidated companies is included in Part A of the Notes to the consolidated financial statements), which includes Intesa Sanpaolo and the companies that it directly and indirectly controls. The scope of consolidation - as specified by IAS/IFRS - also includes the companies operating in dissimilar sectors from the Parent Company, as well as private equity investments. Similarly, special purpose entities/vehicles (SPE/SPV) are included when the requisite of effective control recurs, even if there is no stake in the company.

The "prudential" consolidation scope, on the other hand, excludes from line-by-line consolidation the companies carrying out insurance, commercial or other types of business other than banking and finance activities and some types of special purpose vehicles. Moreover, for the purposes of prudential consolidation, the companies that are jointly controlled by Intesa Sanpaolo, which are measured using the equity method in the financial statements, are consolidated using the proportional method.

The table below provides the list of companies fully consolidated or consolidated with the equity method in the financial statements, with details of the "prudential" treatment. The investments in associates and companies subject to joint control that appear in the "Neither consolidated nor deducted" column are weighted to determine the total risk-weighted assets. The Intesa Sanpaolo Group submitted a request to be able to use the option provided by Art. 49 (1) (otherwise known as the "Danish Compromise"), and received notification of the ECB's permission to calculate the Group's consolidated capital ratios applying the Danish Compromise - under which insurance investments, excluding those attributable to the UBI Group, for which an extension of the "Danish Compromise" has not yet been requested, are risk weighted instead of being deducted from capital - as of the regulatory filings for 30 September 2019. The new treatment set out above, which entails the application of the weighting in place of the deduction, means that the thresholds established in Articles 46 ("Deduction of holdings of Common Equity Tier 1 instruments where an institution does not have a significant investment in a financial sector entity") and 48 ("Threshold exemptions from deduction from Common Equity Tier 1 items") of the CRR will not be exceeded, with the result that the "Deducted" column will remain blank as of 30.09.2019, the effective date of the permission to apply the Danish Compromise granted by the ECB.

Outline of the differences in the scopes of consolidation (entity by entity) as at 31 December 2020 (EU LI3 LG EBA 2016/11) *(Table 1 of 5)*

NAME OF THE ENTITY	METHOD OF ACCOUNTING CONSOLIDATION	METHOD OF REGULATORY CONSOLIDATION		NEITHER CONSOLIDATED NOR DEDUCTED	DEDUCTED	DESCRIPTION OF THE ENTITY
		Full consolidation	Proportionate consolidation			
INTESA SANPAOLO S.P.A.	Full consolidation	X				BANK
BANCA 5 S.P.A.	Full consolidation	X				BANK
BANCA COMERCIALA EXIMBANK S.A.	Full consolidation	X				BANK
BANCA INTESA AD BEOGRAD	Full consolidation	X				BANK
BANCASSURANCE POPOLARI S.P.A.	Full consolidation			X		INSURANCE COMPANIES
BANK OF ALEXANDRIA	Full consolidation	X				BANK
BANKA INTESA SANPAOLO D.D.	Full consolidation	X				BANK
BPB IMMOBILIARE SRL	Full consolidation	X				INSTRUMENTAL
CIB BANK LTD	Full consolidation	X				BANK
CIB INSURANCE BROKER LTD	Full consolidation			X		EU NO EMU NON-FIN. COMP.
CIB INVESTMENT FUND MANAGEMENT LTD	Full consolidation	X				FINANCIAL COMPANY
CIB LEASING LTD.	Full consolidation	X				FINANCIAL COMPANY
CIB RENT OPERATIVE LEASING LTD	Full consolidation	X				FINANCIAL COMPANY
COMPAGNIA ITALIANA FINANZIARIA SRL - IN FORMA ABBREVIATA CIF	Full consolidation			X		PRIVATE OPERATING HOLDING
DUOMO FUNDING PLC	Full consolidation			X		OTHER EU EMU FIN. INTERMEDIARIES
EPSILON SGR S.P.A.	Full consolidation	X				FINANCIAL COMPANY
ETOILE FRANCOIS 1ER SARL	Full consolidation			X		EU EMU NON FIN. COMPANIES
EURIZON ASSET MANAGEMENT SLOVAKIA SPRAV. SPOL. A.S.	Full consolidation	X				FINANCIAL COMPANY
EURIZON CAPITAL SA	Full consolidation	X				FINANCIAL COMPANY
EURIZON CAPITAL SGR SPA	Full consolidation	X				FINANCIAL COMPANY
EURIZON SLJ CAPITAL LIMITED	Full consolidation	X				FINANCIAL COMPANY
FIDEURAM - INTESA SANPAOLO PRIVATE BANKING SPA	Full consolidation	X				BANK
FIDEURAM ASSET MANAGEMENT (IRELAND) DAC	Full consolidation	X				FINANCIAL COMPANY
FIDEURAM BANK (LUXEMBOURG) SA	Full consolidation	X				BANK
FIDEURAM INVESTIMENTI SGR S.P.A.	Full consolidation	X				FINANCIAL COMPANY
FIDEURAM VITA SPA	Full consolidation			X		INSURANCE COMPANIES
FINANCIERE FIDEURAM SA	Full consolidation	X				FINANCIAL COMPANY
IMI CAPITAL MARKET USA CORP	Full consolidation	X				FINANCIAL COMPANY
IMI INVESTMENTS SA	Full consolidation	X				FINANCIAL COMPANY
IMMOBILIARE CASCINA RUBINA S.R.L	Full consolidation			X		PRODUCTION COMPANIES
IN.FRA - INVESTIRE NELLE INFRASTRUTTURE S.R.L.	Full consolidation			X		NON-FIN- GROUPS HOLDING
INIZIATIVE LOGISTICHE S.R.L.	Full consolidation			X		PRODUCTION COMPANIES
INTESA LEASING (CLOSED JOINT STOCK COMPANY)	Full consolidation	X				FINANCIAL COMPANY
INTESA LEASING D.O.O. BEOGRAD	Full consolidation	X				FINANCIAL COMPANY
INTESA SANPAOLO (QINGDAO) SERVICE COMPANY LIMITED	Full consolidation	X				INSTRUMENTAL
INTESA SANPAOLO ASSICURA SPA	Full consolidation			X		INSURANCE COMPANIES
INTESA SANPAOLO BANK ALBANIA SH.A.	Full consolidation	X				BANK
INTESA SANPAOLO BANK IRELAND PLC	Full consolidation	X				BANK
INTESA SANPAOLO BANK LUXEMBOURG SA	Full consolidation	X				BANK
INTESA SANPAOLO BANKA D.D. BOSNA I HERCEGOVINA	Full consolidation	X				BANK
INTESA SANPAOLO BRASIL S.A. - BANCO MULTIPLO	Full consolidation	X				BANK
INTESA SANPAOLO FORVALUE S.P.A	Full consolidation			X		PRODUCTION COMPANIES
INTESA SANPAOLO FUNDING LLC	Full consolidation	X				FINANCIAL COMPANY
INTESA SANPAOLO HARBOURMASTER III S.A.	Full consolidation	X				INSTRUMENTAL
INTESA SANPAOLO HOLDING INTERNATIONAL SA	Full consolidation	X				FINANCIAL COMPANY

Outline of the differences in the scopes of consolidation (entity by entity) as at 31 December 2020 (EU LI3 LG EBA 2016/11) *(Table 2 of 5)*

NAME OF THE ENTITY	METHOD OF ACCOUNTING CONSOLIDATION	METHOD OF REGULATORY CONSOLIDATION		NEITHER CONSOLIDATED NOR DEDUCTED	DEDUCTED	DESCRIPTION OF THE ENTITY
		Full consolidation	Proportionate consolidation			
INTESA SANPAOLO IMI SECURITIES CORP	Full consolidation	X				FINANCIAL COMPANY
INTESA SANPAOLO INNOVATION CENTER SPA	Full consolidation	X				INSTRUMENTAL
INTESA SANPAOLO INSURANCE AGENCY S.P.A.	Full consolidation			X		INSUR. BROKERS/AGENTS AND CONSULT.
INTESA SANPAOLO INTERNATIONAL VALUE SERVICES LTD	Full consolidation	X				INSTRUMENTAL
INTESA SANPAOLO LIFE DESIGNATED ACTIVITY COMPANY	Full consolidation			X		EU EMU INSURANCE COMPANIES
INTESA SANPAOLO PRIVATE BANK (SUISSE) MORVAL S.A.	Full consolidation	X				BANK
INTESA SANPAOLO PRIVATE BANKING SPA	Full consolidation	X				BANK
INTESA SANPAOLO PROVIS S.P.A.	Full consolidation	X				FINANCIAL COMPANY
INTESA SANPAOLO RBM SALUTE S.P.A.	Full consolidation			X		INSURANCE COMPANIES
INTESA SANPAOLO RE.O.CO. S.P.A.	Full consolidation	X				INSTRUMENTAL
INTESA SANPAOLO RENT FORYOU S.P.A.	Full consolidation			X		PRODUCTION COMPANIES
INTESA SANPAOLO ROMANIA S.A. COMMERCIAL BANK	Full consolidation	X				BANK
INTESA SANPAOLO SERVITIA S.A.	Full consolidation	X				INSTRUMENTAL
INTESA SANPAOLO SMART CARE S.R.L.	Full consolidation			X		PRODUCTION COMPANIES
INTESA SANPAOLO VITA SPA	Full consolidation			X		INSURANCE COMPANIES
ISP CB IPOTECARIO S.R.L.	Full consolidation	X				FINANCIAL COMPANY
ISP CB PUBBLICO S.R.L.	Full consolidation	X				FINANCIAL COMPANY
ISP OBG S.R.L.	Full consolidation	X				FINANCIAL COMPANY
IW BANK SPA	Full consolidation	X				BANK
JOINT STOCK COMPANY BANCA INTESA	Full consolidation	X				BANK
KEDOMUS S.R.L	Full consolidation	X				INSTRUMENTAL
LUX GEST ASSET MANAGEMENT S.A.	Full consolidation	X				FINANCIAL COMPANY
MILANO SANTA GIULIA S.P.A.	Full consolidation			X		PRODUCTION COMPANIES
MORVAL BANK & TRUST CAYMAN LTD	Full consolidation	X				BANK
MSG COMPARTO QUARTO SRL	Full consolidation			X		PRODUCTION COMPANIES
MSG COMPARTO SECONDO S.R.L.	Full consolidation			X		PRODUCTION COMPANIES
MSG COMPARTO TERZO SRL	Full consolidation			X		PRODUCTION COMPANIES
PBZ CARD D.O.O.	Full consolidation	X				FINANCIAL COMPANY
PBZ INVEST D.O.O.	Full consolidation	X				FINANCIAL COMPANY
PBZ LEASING D.O.O.	Full consolidation	X				FINANCIAL COMPANY
PBZ STAMBENA STEDIONICA DD	Full consolidation	X				BANK
PORTA NUOVA GIOIA	Full consolidation			X		MUTUAL FUNDS/SICAV
PRAMERICA MANAGEMENT COMPANY S.A.	Full consolidation	X				FINANCIAL COMPANY
PRAMERICA SGR S.P.A.	Full consolidation	X				FINANCIAL COMPANY
PRAVEX BANK PUBLIC JOINT-STOCK COMPANY	Full consolidation	X				BANK
PRESTITALIA S.P.A.	Full consolidation	X				FINANCIAL COMPANY
PRIVATE EQUITY INTERNATIONAL S.A.	Full consolidation	X				FINANCIAL COMPANY
PRIVREDNA BANKA ZAGREB DD	Full consolidation	X				BANK
QINGDAO YICAI FUND DISTRIBUTION CO. LTD.	Full consolidation	X				FINANCIAL COMPANY
RECOVERY PROPERTY UTILISATION AND SERVICECS ZRT.	Full consolidation			X		EU NO EMU NON-FIN. COMP.
RI. RENTAL S.R.L.	Full consolidation			X		PRODUCTION COMPANIES
RISANAMENTO EUROPA S.R.L.	Full consolidation			X		PRIVATE OPERATING HOLDING
RISANAMENTO SPA	Full consolidation			X		PRODUCTION COMPANIES
ROMULUS FUNDING CORP.	Full consolidation			X		OTHER NON-EU FIN. COMPANIES
SANPAOLO INVEST SOCIETA' D'INTERMEDIAZIONE MOBILIARE S.P.A.	Full consolidation	X				FINANCIAL COMPANY
SOCIETA' ITALIANA DI REVISIONE E FIDUCIARIA - S.I.RE.F. S.P.A.	Full consolidation	X				FINANCIAL COMPANY

Outline of the differences in the scopes of consolidation (entity by entity) as at 31 December 2020 (EU LI3 LG EBA 2016/11) *(Table 3 of 5)*

NAME OF THE ENTITY	METHOD OF ACCOUNTING CONSOLIDATION	METHOD OF REGULATORY CONSOLIDATION		NEITHER CONSOLIDATED NOR DEDUCTED	DEDUCTED	DESCRIPTION OF THE ENTITY
		Full consolidation	Proportionate consolidation			
SVILUPPO COMPARTO 3 SRL	Full consolidation			X		PRODUCTION COMPANIES
UBI FACTOR SPA	Full consolidation	X				FINANCIAL COMPANY
UBI FINANCE CB 2 SRL	Full consolidation	X				FINANCIAL COMPANY
UBI FINANCE S.R.L.	Full consolidation	X				FINANCIAL COMPANY
UBI LEASING SPA	Full consolidation	X				FINANCIAL COMPANY
UBI SISTEMI E SERVIZI S.C.P.A.	Full consolidation	X				INSTRUMENTAL
UNIONE DI BANCHE ITALIANE SPA	Full consolidation	X				BANK
VSEOBECNA UVEROVA BANKA A.S.	Full consolidation	X				BANK
VUB LEASING A.S.	Full consolidation	X				FINANCIAL COMPANY
24-7 FINANCE S.R.L.	Equity method			X		SECURITISATION VEHICLE
ADRIANO LEASE SEC S.R.L.	Equity method			X		SECURITISATION VEHICLE
APULIA FINANCE N. 4 S.R.L.	Equity method			X		SECURITISATION VEHICLE
AUGUSTO SRL	Equity method			X		SECURITISATION VEHICLE
AUTOSTRADA PEDEMONTANA LOMBARDA SPA	Equity method			X		COMP. UNDER LOCAL ADMIN. CONTROL
AVIVA VITA S.P.A.	Equity method			X		INSURANCE COMPANIES
BACK2BONIS	Equity method			X		MUTUAL FUNDS/SICAV
BACKTOWORK24 S.R.L.	Equity method			X		PRODUCTION COMPANIES
BANCOMAT SPA	Equity method			X		OTHER ACCESSORY FINANCIAL COMP.
BERICA ABS 3 S.R.L.	Equity method			X		SECURITISATION VEHICLE
BRERA SEC S.R.L.	Equity method			X		SECURITISATION VEHICLE
CAMFIN SPA	Equity method			X		PRIVATE OPERATING HOLDING
CASSA DI RISPARMIO DI FERMO SPA	Equity method			X		BANKING SECTOR
CLARA SEC. S.R.L.	Equity method			X		SECURITISATION VEHICLE
CLARIS FINANCE 2005 S.R.L.	Equity method			X		SECURITISATION VEHICLE
COLOMBO SRL	Equity method			X		SECURITISATION VEHICLE
COMPAGNIA AEREA ITALIANA SPA	Equity method			X		PRIVATE OPERATING HOLDING
CONSORZIO BANCARIO SIR S.P.A. (IN LIQUIDAZIONE)	Equity method			X		PRIVATE OPERATING HOLDING
CONSORZIO STUDI E RICERCHE FISCALI GRUPPO INTESA SANPAOLO	Equity method			X		INSTRUMENTAL
DIOCLEZIANO SRL	Equity method			X		SECURITISATION VEHICLE
EQUITER SPA	Equity method			X		OTHER FINANCIAL COMP.
EURIZON CAPITAL ASIA LIMITED	Equity method			X		FINANCIAL COMPANY
EURIZON CAPITAL REAL ASSET SGR SPA	Equity method			X		FINANCIAL COMPANY
EUROMILANO SPA	Equity method			X		PRODUCTION COMPANIES
EUROPROGETTI & FINANZA S.R.L. IN LIQUIDAZIONE	Equity method			X		COMP. UNDER CENTRAL ADMIN. CONTROL
EUSEBI HOLDINGS B.V.	Equity method			X		EU EMU NON FIN. COMPANIES
EXELIA SRL	Equity method			X		INSTRUMENTAL
EXETRA S.P.A	Equity method			X		PRODUCTION COMPANIES
EXPERIENTIA GLOBAL S.A.	Equity method			X		NON-EU NON FIN. COMPANIES
FI.NAV. COMPARTO A - CREDITI	Equity method			X		MUTUAL FUNDS/SICAV
FOCUS INVESTMENTS SPA	Equity method			X		PRIVATE OPERATING HOLDING
FONDO DI RIGENERAZIONE URBANA SICILIA S.R.L.	Equity method			X		NON-FIN- GROUPS HOLDING
FONDO PER LA RICERCA E L'INNOVAZIONE S.R.L. RIF	Equity method			X		PRODUCTION COMPANIES
FONDO SARDEGNA ENERGIA S.R.L.	Equity method			X		PRIVATE OPERATING HOLDING
FOODQUOTE SRL	Equity method			X		PRODUCTION COMPANIES
GIADA SEC. S.R.L.	Equity method			X		SECURITISATION VEHICLE
IMI FINANCE LUXEMBOURG S.A.	Equity method			X		FINANCIAL COMPANY
IMMIT - IMMOBILI ITALIANI SRL	Equity method			X		PRODUCTION COMPANIES
IMMOBILIARE NOVOLI S.P.A.	Equity method			X		PRODUCTION COMPANIES

Outline of the differences in the scopes of consolidation (entity by entity) as at 31 December 2020 (EU LI3 LG EBA 2016/11) *(Table 4 of 5)*

NAME OF THE ENTITY	METHOD OF ACCOUNTING CONSOLIDATION	METHOD OF REGULATORY CONSOLIDATION		NEITHER CONSOLIDATED NOR DEDUCTED	DEDUCTED	DESCRIPTION OF THE ENTITY
		Full consolidation	Proportionate consolidation			
IMPRESOL S.R.L. IN LIQUIDAZIONE	Equity method			X		PRODUCTION COMPANIES
INDACO VENTURE PARTNERS SGR SPA	Equity method			X		FUND MANAGEMENT COMPANY
INIZIATIVE IMMOBILIARI INDUSTRIALI S.P.A. - IN LIQUIDAZIONE	Equity method			X		COMP. UNDER LOCAL ADMIN. CONTROL
INTESA INVEST AD BEOGRAD	Equity method			X		FINANCIAL COMPANY
INTESA SANPAOLO AGENTS4YOU S.P.A.	Equity method			X		FINANCIAL COMPANY
INTESA SANPAOLO CASA S.P.A	Equity method			X		PRODUCTION COMPANIES
INTESA SANPAOLO EXPO INSTITUTIONAL CONTACT S.R.L.	Equity method			X		PRODUCTION COMPANIES
INTESA SANPAOLO FORMAZIONE SOCIETA' CONSORTILE PER AZIONI	Equity method			X		PRODUCTION COMPANIES
INTESA SANPAOLO HIGHLINE SRL	Equity method			X		PRODUCTION COMPANIES
INTESA SANPAOLO PRIVATE ARGENTINA S.A.	Equity method			X		FINANCIAL COMPANY
INTESA SANPAOLO PRIVATE MONACO S.A	Equity method			X		FINANCIAL COMPANY
INTESA SANPAOLO SERVICOS E EMPRENDIMENTOS LTDA EM LIQUIDACAO	Equity method			X		FINANCIAL COMPANY
INTRUM ITALY S.P.A.	Equity method			X		PRODUCTION COMPANIES
ISM INVESTIMENTI SPA	Equity method			X		NON-FIN- GROUPS HOLDING
LEONARDO TECHNOLOGY S.R.L. IN LIQUIDAZIONE	Equity method			X		PRIVATE OPERATING HOLDING
LOMBARDA VITA SOCIETA' PER AZIONI	Equity method			X		INSURANCE COMPANIES
MARKETWALL SRL	Equity method			X		PRODUCTION COMPANIES
MECENATE S.R.L IN LIQUIDAZIONE	Equity method			X		FINANCIAL COMPANY
MIR CAPITAL MANAGEMENT SA	Equity method			X		OTHER EU EMU FIN. INTERMEDIARIES
MIR CAPITAL S.C.A. SICAR	Equity method			X		OTHER EU EMU FIN. INTERMEDIARIES
MISR ALEXANDRIA FOR FINANCIAL INVESTMENTS MUTUAL FUND CO.	Equity method			X		OTHER NON-EU FIN. COMPANIES
MISR INTERNATIONAL TOWERS CO.	Equity method			X		NON-EU NON FIN. COMPANIES
MONTEFELTRO SVILUPPO SOC. CONS. A R.	Equity method			X		COMP. UNDER LOCAL ADMIN. CONTROL
MORVAL VONWILLER ADVISORS SA	Equity method			X		FINANCIAL COMPANY
NETWORK IMPRESA S.P.A. IN CONCORDATO PREVENTIVO	Equity method			X		PRODUCTION COMPANIES
NEVA FIRST-FCC	Equity method			X		MUTUAL FUNDS/SICAV
NEVA SGR S.P.A.	Equity method			X		FINANCIAL COMPANY
OOO INTESA REALTY RUSSIA	Equity method			X		NON-EU NON FIN. COMPANIES
ORO ITALIA TRADING SPA IN LIQUIDAZIONE	Equity method			X		COMP. UNDER CENTRAL ADMIN. CONTROL
OVAL MONEY LTD	Equity method			X		EU NO EMU OTHER FIN. INT.
PBZ CROATIA OSIGURANJE PUBLIC LIMITED COMPANY FOR COMPULSORY PENSION FUND MANAGEMENT	Equity method		X			EU NO EMU OTHER FIN. INT.
PENGHUA FUND MANAGEMENT CO. LTD	Equity method			X		OTHER NON-EU FIN. COMPANIES
PIETRA S.R.L.	Equity method			X		PRIVATE OPERATING HOLDING
POLIS FONDI S.G.R.P.A.	Equity method			X		FUND MANAGEMENT COMPANY
RAINBOW	Equity method			X		OTHER COLL. INVEST. ORG.
RCN FINANZIARIA S.P.A.	Equity method			X		NON-FIN- GROUPS HOLDING
RSCT FUND - COMPARTO CREDITI	Equity method			X		MUTUAL FUNDS/SICAV
S.F. CONSULTING S.R.L.	Equity method			X		PRODUCTION COMPANIES
SICILY INVESTMENTS S.A.R.L.	Equity method			X		EU EMU NON FIN. COMPANIES
SISALPAY GROUP S.P.A.	Equity method			X		FIN. GROUP HOLDING
SLOVAK BANKING CREDIT BUREAU, S.R.O.	Equity method			X		EU EMU NON FIN. COMPANIES
SOCIETA' BENEFIT CIMAROSA 1 SPA	Equity method			X		PRODUCTION COMPANIES
SOUTHERN GROUP LIMITED	Equity method			X		FINANCIAL COMPANY
SRM STUDI E RICERCHE PER IL MEZZOGIORNO	Equity method			X		SOC. SEC./CHAR./TRAD. UN./POLIT. INST./ENTITIES
SVILUPPO INDUSTRIALE S.P.A. IN LIQUIDAZIONE	Equity method			X		NON-FIN- GROUPS HOLDING
TRINACRIA CAPITAL S.A.R.L.	Equity method			X		EU EMU NON FIN. COMPANIES
UBI ACADEMY SOC. CONS A R L.	Equity method			X		INSTRUMENTAL

Outline of the differences in the scopes of consolidation (entity by entity) as at 31 December 2020 (EU LI3 LG EBA 2016/11) *(Table 5 of 5)*

NAME OF THE ENTITY	METHOD OF ACCOUNTING CONSOLIDATION	METHOD OF REGULATORY CONSOLIDATION		NEITHER CONSOLIDATED NOR DEDUCTED	DEDUCTED	DESCRIPTION OF THE ENTITY
		Full consolidation	Proportionate consolidation			
UBI FINANCE 2 S.R.L., IN LIQUIDAZIONE	Equity method			X		SECURITISATION VEHICLE
UBI SPV GROUP 2016 S.R.L.	Equity method			X		SECURITISATION VEHICLE
UBI SPV LEASE 2016 S.R.L.	Equity method			X		SECURITISATION VEHICLE
UBI TRUSTEE S.A.	Equity method			X		FINANCIAL COMPANY
UFI SERVIZI S.R.L.	Equity method			X		PRODUCTION COMPANIES
VUB GENERALI DOCHODKOVA SPRAVCOVSKA SPOLOCNOST, A.S.	Equity method		X			OTHER EU EMU FIN. INTERMEDIARIES
YOLO GROUP SRL	Equity method			X		INSUR. BROKERS/AGENTS AND CONSULT.
ZHONG OU ASSET MANAGEMENT COMPANY LIMITED	Equity method			X		OTHER NON-EU FIN. COMPANIES

The table below (LI1) contains the reconciliation of the consolidated balance sheet with the regulatory-scope balance sheet as at 31 December 2020, as well as the allocation of the entries among the regulatory risk categories. The second table below (EU LI2) presents the reconciliation between the total amount based on the regulatory scope of consolidation (book values) and the exposure value subject to capital requirements, for each type of risk.

Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories as at 31 December 2020 (EU LI1 LG EBA 2016/11) *(Table 1 of 2)*

(millions of euro)

		Carrying values as reported in published financial statements	Carrying values under the scope of regulatory consolidation	CARRYING VALUES OF ITEMS						
				Subject to credit risk framework	Subject to counterparty risk framework	*of which: Subject to the CRR framework SFT*	*of which: Subject to the CRR framework Derivatives*	Subject to the securitization framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
	Assets									
10.	Cash and cash equivalents	9,814	9,801	9,801	-	-	-	-	-	-
20.	Financial assets measured at fair value through profit or loss	58,246	59,063	5,151	29,905	-	*29,905*	672	53,616	88
	a) financial assets held for trading	53,165	53,619	464	29,905	-	*29,905*	-	53,616	3
	b) financial assets designated at fair value	3	3	3	-	-	-	-	-	-
	c) other financial assets mandatorily measured at fair value	5,078	5,441	4,684	-	-	-	672	-	85
30.	Financial assets measured at fair value through other comprehensive income	57,858	57,865	56,749	-	-	-	1,116	-	-
35.	Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	177,170	-	-	-	-	-	-	-	-
40.	Financial assets measured at amortised cost	615,260	616,051	563,929	23,574	*23,574*	-	28,277	-	271
	a) due from banks	110,095	110,095	103,386	6,709	*6,709*	-	-	-	-
	b) loans to customers	505,165	505,956	460,543	16,865	*16,865*	-	28,277	-	271
45.	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	1,211	-	-	-	-	-	-	-	-
50.	Hedging derivatives	1,134	1,134	-	1,134	-	*1,134*	-	-	-
60.	Fair value change of financial assets in hedged portfolios (+/-)	2,400	2,400	2,400	-	-	-	-	-	-
70.	Investments in associates and companies subject to joint control	1,996	9,103	7,706	-	-	-	-	-	1,397
80.	Technical insurance reserves reassured with third parties	93	-	-	-	-	-	-	-	-
90.	Property and equipment	10,850	9,733	9,733	-	-	-	-	-	-
100.	Intangible assets	8,194	7,265	1,249	-	-	-	-	-	6,016
	of which:	-	-	-	-	-	-	-	-	-
	- goodwill	3,154	2,380	2,380	-	-	-	-	-	2,380
110.	Tax assets	19,503	18,813	17,028	-	-	-	-	-	1,785
	a) current	2,326	2,222	2,222	-	-	-	-	-	-
	b) deferred	17,177	16,591	14,806	-	-	-	-	-	1,785
120.	Non-current assets held for sale and discontinued operations	28,702	28,702	28,656	-	-	-	-	-	46
130.	Other assets	10,183	6,329	6,329	-	-	-	-	-	-
Total Assets		**1,002,614**	**826,259**	**708,731**	**54,613**	***23,574***	***31,039***	**30,065**	**53,616**	**9,603**

Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories as at 31 December 2020 (EU LI1 LG EBA 2016/11) *(Table 2 of 2)*

(millions of euro)

		Carrying values as reported in published financial statements	Carrying values under the scope of regulatory consolidation	CARRYING VALUES OF ITEMS						
				Subject to credit risk framework	Subject to counterparty risk framework	*of which: Subject to the CRR framework SFT*	*of which: Subject to the CRR framework Derivatives*	Subject to the securitization framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
	Liabilities and Shareholders' Equity									
10.	Financial liabilities measured at amortised cost	630,146	633,118	-	11,011	*11,011*	-	-	-	622,107
	a) due to banks	115,947	115,690	-	10,067	*10,067*	-	-	-	105,623
	b) due to customers	422,365	423,674	-	944	*944*	-	-	-	422,730
	c) securities issued	91,834	93,754	-	-	-	-	-	-	93,754
15.	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	1,935	-	-	-	-	-	-	-	-
20.	Financial liabilities held for trading	59,033	59,153	-	38,387	-	*38,387*	-	54,332	4,821
30.	Financial liabilities designated at fair value	3,032	3,032	-	-	-	-	-	-	3,032
35.	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	77,207	-	-	-	-	-	-	-	-
40.	Hedging derivatives	7,088	7,088	-	7,088	-	*7,088*	-	-	-
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	733	733	-	-	-	-	-	-	733
60.	Tax liabilities	3,029	2,039	-	-	-	-	-	-	2,039
	a) current	284	239	-	-	-	-	-	-	239
	b) deferred	2,745	1,800	-	-	-	-	-	-	1,800
70.	Liabilities associated with non-current assets held for sale and discontinued operations	35,676	35,676	-	-	-	-	-	-	35,676
80.	Other liabilities	14,439	12,184	-	-	-	-	-	-	12,184
90.	Employee termination indemnities	1,200	1,191	-	-	-	-	-	-	1,191
100.	Allowances for risks and charges	5,964	5,810	-	-	-	-	-	-	5,810
	a) commitments and guarantees given	626	599	-	-	-	-	-	-	599
	b) post-employment benefits	324	324	-	-	-	-	-	-	324
	c) other allowances for risks and charges	5,014	4,887	-	-	-	-	-	-	4,887
110.	Technical reserves	96,811	-	-	-	-	-	-	-	-
120.	Valuation reserves	-515	-515	-	-	-	-	-	-	-515
125.	Valuation reserves pertaining to insurance companies	809	809	-	-	-	-	-	-	809
130.	Redeemable shares	-	-	-	-	-	-	-	-	-
140.	Equity instruments	7,441	7,441	-	-	-	-	-	-	7,441
150.	Reserves	17,461	17,461	-	-	-	-	-	-	17,461
160.	Share premium reserve	27,444	27,444	-	-	-	-	-	-	27,444
170.	Share capital	10,084	10,084	-	-	-	-	-	-	10,084
180.	Treasury shares (-)	-130	-130	-	-	-	-	-	-	-130
190.	Minority interests (+/-)	450	364	-	-	-	-	-	-	364
200.	Net income (loss) (+/-)	3,277	3,277	-	-	-	-	-	-	3,277
Total liabilities and shareholders' equity		**1,002,614**	**826,259**	**-**	**56,486**	***11,011***	***45,475***	**-**	**54,332**	**753,828**

The differences between the carrying values in the accounting scope and the carrying values in the “prudential” scope of consolidation are attributable to the deconsolidation of the companies that are not part of the Banking Group and the proportional consolidation of the subsidiaries subject to joint control, which are consolidated according to the equity method in the financial statements.

Main sources of differences between regulatory exposure amounts and carrying values in financial statements as at 31 December 2020 (EU LI2 LG EBA 2016/11)

(millions of euro)

	Subject to credit risk framework	Subject to counterparty risk (*)	*of which: Subject to the CRR framework (SFT)*	*of which: Subject to the CRR framework (Derivatives)*	Subject to the securitization framework	Subject to the market risk framework
Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)	**708,731**	**54,613**	***23,574***	***31,039***	**30,065**	**53,616**
Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	**-**	**56,486**	***11,011***	***45,475***	**-**	**54,332**
Total net amount under the regulatory scope of consolidation	**708,731**	**65,624**	***34,585***	***31,039***	**30,065**	**107,948**
Off-balance-sheet amounts (post CCF)	57,350	8,640	*8,640*	-	4,392	-
Differences due to the treatment of adjustments (exposures subject to IRB approaches - on-balance sheet only)	16,470	-	-	-	-	-
Differences due to the treatment of positions subject to advanced EPE approaches (incl. effect of collateral and netting)	-	-70,356	*-33,115*	*-37,241*	-	-
Effect of collateral (exposures subject to the Standardised Approach)	-7,581	-2,306	*-1,763*	*-543*	-	-
Reclassification of initial margins and change margins included in counterparty risk (EPE approach)	-27,573	27,573	-	*27,573*	-	-
Other	-6,286	-	-	-	-2,750	-
EXPOSURE AMOUNTS CONSIDERED FOR REGULATORY PURPOSES	**741,111**	**29,175**	***8,347***	***20,828***	**31,707**	**-**

(*) Reconciliation entries for counterparty risk are broken down into SFTs and derivatives, in separate columns.

The main differences between the carrying values determined based on the regulatory scope of consolidation and the amounts of the exposures determined for regulatory purposes, with regard to credit risk, are attributable to the following:

a) the amounts of the off-balance sheet exposures, not included in the carrying values, disclosed for regulatory purposes at their nominal amount after application of the credit conversion factors;
b) the amounts relating to value adjustments, deducted from the gross value for accounting purposes, whereas for regulatory purposes and for the on-balance sheet exposures subject to internal models they do not reduce the value of the EAD (Exposure at Default), because they are included in the calculation of the Excess Reserve - Shortfall (comparison between value adjustments and expected losses);
c) the amounts related to the value of the collateral received that, in the standardised approach, reduce the carrying value for the determination of the exposure value, in application of the comprehensive approach envisaged by the regulations;
d) the amounts related to initial and variation margins, in relation to derivatives transactions, which are excluded from the exposure value for credit risk purposes because they are included in the calculation of the exposure value of the derivatives subject to the EPE (Expected Positive Exposure) approach.

The main differences attributable to counterparty risk that explain the differences between the carrying values in the financial statements and the regulatory values (EAD) mainly relate to the use of the EPE approach for both Derivatives transactions and SFTs. These include the following factors:

a) for Derivatives, the use of an EPE internal model enables the measurement of the entire portfolio of this type of instrument over time, by simulating the risk factors over a period of one year (in accordance with the regulatory requirement). Derivatives that have a negative fair value at t_0, but could have a positive fair value over the one-year period, are simulated and remeasured;
b) at the same time, the internal model approach allows the Group to fully benefit from the risk mitigation contracts which consist of netting and margining arrangements, which it uses both to reduce bilateral risk and to comply with the EMIR clearing obligations. The exposure to each counterparty, in each simulated scenario, is obtained as the positive difference between the value of the portfolio and any financial collateral received or given to the counterparty. The final EAD corresponds to the weighted average for the period of the simulated exposures, scaled for the alpha prudential factor;
c) for the exposures in SFTs, these are margined daily, through GMRA/GMSLA arrangements, that reduce the exposure and consequently the EAD.

Section 3 - Own Funds

Qualitative disclosure

Introduction

As previously mentioned, the harmonised rules for banks and investment companies contained in Directive 2013/36/EU (CRD IV) and in Regulation (EU) 575/2013 (CRR) of 26 June 2013 and amended by Regulation (EU) 2019/876 (CRR II), which transpose the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) into European Union laws, became applicable from 1 January 2014.

The above provisions have been incorporated into the following two regulations:
- Bank of Italy Circular 285: "Supervisory regulations for banks" which renders the above-mentioned provisions operational;
- Implementing Regulation No. 680/2014, and subsequent amendments and integrations, laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) 575/2013 (CRR) of the European Parliament and of the Council.

These provisions are supplemented by the European Commission Delegated Regulations and the ECB Decisions on the definition of Own Funds, listed below:
- Commission Delegated Regulation (EU) 342/2014 of 21 January 2014, supplementing Directive 2002/87/EC of the European Parliament and of the Council and Regulation (EU) 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the application of the calculation methods of capital adequacy requirements for financial conglomerates;
- Commission Delegated Regulation (EU) 2015/923 of 11 March 2015, amending Delegated Regulation (EU) 241/2014 supplementing Regulation (EU) 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for Own Funds requirements for institutions;
- Commission Delegated Regulation (EU) 2016/101 of 26 October 2015 supplementing Regulation (EU) 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for prudent valuation;
- Decision No. 2015/656 of the European Central Bank of 4 February 2015 on the conditions under which credit institutions are permitted to include interim or year-end profits in Common Equity Tier 1 capital;
- Regulation (EU) 2017/2395[4] of the European Parliament and Council of 12 December 2017, amending Regulation (EU) 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposures treatment of certain public sector exposures denominated in the domestic currency of any Member State, updating Regulation 575/2013 CRR through the addition of the new Article 473a "Introduction of IFRS 9".

This regulatory framework requires that Own Funds (or regulatory capital) are made up of the following tiers of capital:
- Tier 1 Capital, in turn composed of:
  - Common Equity Tier 1 Capital (CET1);
  - Additional Tier 1 Capital (AT1);
- Tier 2 Capital (T2).

Tier 1's predominant element is Common Equity, mainly composed of equity instruments (e.g. ordinary shares net of treasury shares), share premium reserves, retained earnings reserves, undistributed income for the period, valuation reserves, eligible minority interests, net of the deducted items.

In order to be eligible for Common Equity, the equity instruments issued must guarantee absorption of losses on going concern, by satisfying the following characteristics:
- maximum level of subordination;
- option for suspending the payment of dividends/coupons at the full discretion of the issuer and in a non-cumulative manner;
- unredeemability;
- absence of redemption incentives.

At present, with reference to the Intesa Sanpaolo Group, no equity instrument other than ordinary shares is eligible for inclusion in Common Equity.

A number of prudential filters are also envisaged with effects on Common Equity:
- filter on profits associated with future margins deriving from securitisations;
- filter on cash flow hedge (CFH) reserves;
- filter on profits or losses on liabilities designated at fair value (derivatives or otherwise) associated with changes in own credit risk (DVA);
- adjustments to fair value assets associated with the "prudent valuation".

[4] As already mentioned in the Introduction of this document, this Regulation has been amended by Regulation (EU) 2020/873.

The regulation also envisages a series of elements to be deducted from Common Equity Tier 1:
- losses for the current year;
- goodwill, intangible assets and residual intangible assets;
- deferred tax assets (DTA) associated with future income not deriving from temporary differences (e.g. DTA on losses carried forward);
- expected losses exceeding total credit risk adjustments (the shortfall reserve) for exposures weighted according to IRB approaches;
- net assets deriving from defined benefit plans;
- direct, indirect or synthetic holdings of the entity in Common Equity Tier 1 Capital instruments;
- exposures for which it is decided to opt for deduction rather than a 1,250% weighting among RWA;
- non-significant investments in CET1 instruments issued by companies operating in the financial sector (less the amount exceeding the thresholds envisaged in the regulations);
- deferred tax assets (DTA) that rely on future profitability and arise from temporary differences (deducted for the amount exceeding the thresholds envisaged in the regulation);
- significant investments in CET1 instruments issued by companies operating in the financial sector (deducted for the amount exceeding the thresholds envisaged in the regulation);
- the applicable amount of insufficient coverage for non-performing exposures, as governed by Regulation 2019/630 of the European Parliament and Council of 17 April 2019 (minimum loss coverage for non-performing exposures).

The AT1 category includes equity instruments other than ordinary shares (which are eligible for Common Equity) and which meet the regulatory requirements for inclusion in that level of own funds (e.g. savings shares or AT1 equity instruments), once the deductions of items and exemptions provided for in Regulation (EU) 575/2013 (CRR) have been applied.

Tier 2 Capital is mainly composed of items such as eligible subordinated liabilities and any excess of credit risk adjustments over and above expected losses (the excess reserve) for exposures weighted according to IRB approaches, once the deductions of items and exemptions provided for in Regulation (EU) 575/2013 (CRR) have been applied. Following the issue of Regulation (EU) 2019/876 (CRR II), the eligibility of class 2 instruments with a residual duration of less than five years (being amortised) is determined based on the carrying amount instead of the nominal value.
The transitional period for the introduction of the "Basel 3" regulatory framework, which provided for the partial inclusion within or deduction from Own Funds of certain items to enable a gradual impact of the new regulatory requirements, in accordance with the provisions of Directive 2013/36/EU (CRD IV) and the CRR, ended in 2017, and the exemption period established by Regulation (EU) 575/2013 (CRR), regarding the amendments to be applied to IAS 19, also ended in 2018. In addition, as at 31 December 2020, the Intesa Sanpaolo Group no longer held any subordinated instruments subject to specific transitional rules (i.e. grandfathering, which would have ended in 2021) aimed at the gradual exclusion from own funds of instruments that do not meet the requirements of the new rules.

The transitional period (2018-2022), also aimed at mitigating the capital impacts linked to the introduction of the new financial reporting standard IFRS 9, started from 1 January 2018. The Intesa Sanpaolo Group has exercised the option provided in EU Regulation 2395/2017 of adopting the "static" approach that allows the neutralisation of a progressively decreasing amount of the impact of IFRS 9 in its CET1 solely for the FTA component of the impairment.
In particular, the result from the comparison between the IAS 39 adjustments at 31 December 2017 and the IFRS 9 adjustments at 1 January 2018 – relating to performing loans and securities (stage 1 and 2) and NPLs (stage 3), net of tax and having eliminated any shortfall reserve – is re-included in the capital according to phase-in percentages of 95% in 2018, 85% in 2019, 70% in 2020, 50% in 2021, and 25% in 2022. During the transitional period, the Group may also elect to change this approach once only, subject to authorisation from the Supervisory Authority, moving from the "static" approach to the "dynamic" approach or suspending the application of the transitional treatment in favour of the fully loaded regime. During 2018, two EBA Q&As were published (2018_3784, 2018_4113) which specified that, during the transitional period, any Deferred Tax Assets (DTAs) connected to IFRS 9 FTA-related adjustments should not be considered as deductions from CET 1 as envisaged by the CRR.
Considering that the approval of Law 145 of 30 December 2018 (2019 Budget Act) led to the recognition of DTAs linked to the deferred deductibility, over 10 financial years starting from 2018, of the value adjustments recognised in shareholders' equity because they are related to the first-time adoption of IFRS 9, as envisaged by the aforementioned Regulation and the subsequent EBA Q&As, those DTAs have been neutralised for the purposes of CET 1 Capital during the transitional period established for the IFRS 9 impact (which extends until 2022) limited to the complementary portion of the phase-in percentages detailed above. Law 160 of 27 December 2019 (2020 Budget Act), like the previous Law, deferred the deduction of the portions pertaining to 2019 of the above value adjustments to the tax period 2028.

In November 2019, Q&A 2018_4302 was published which allows the amount of net deferred tax assets that rely on future profitability to be treated for prudential purposes, within the deductions from the CET 1 items provided for in the CRR, independently and distinctly from the accounting framework applied to them. In this respect, the EBA clarified that for the deduction of the above-mentioned DTAs from CET 1 items, the netting rules established by the CRR apply and that therefore the amount of the DTAs – calculated for prudential purposes – may differ from the related net balance reported in the periodic reports and determined according to the applicable accounting rules.

With regard to Regulation (EU) 2019/876, also known as CRR II (Capital Requirements Regulation) – which is part of the broader package of regulatory reforms that also include the CRD V (Capital Requirements Directive), the BRRD II (Banking Recovery and Resolution Directive) and the SRMR II (Single Resolution Mechanism Regulation) – and to Regulation (EU) 2019/630 as regards minimum loss coverage for non-performing exposures, these were all in force as at 31 December 2020 and already partially applicable.

The above-mentioned Regulation (EU) 2019/876 (CRR II), in Article 494b "Grandfathering of own funds instruments and eligible liabilities instruments", introduced a new transitional regime, applicable until 28 June 2025, which allows own funds instruments – issued before 27 June 2019 (the date of entry into force of CRR II), which do not meet the specific conditions set out in points p), q) and r) of Article 52 ("Additional Tier 1 instruments"), as amended by Article 1 point 23) of CRR II, and in points n), o) and p) of Article 63 ("Tier 2 instruments"), as amended by Article 1 point 27) of CRR II – to qualify as AT1 and T2 instruments.
For the Intesa Sanpaolo Group, these transitional rules only applied to one T2 instrument, for a nominal amount of 1,250 million euro, issued in July 2010, which matured in July 2020.

Lastly, as already mentioned in the introduction to this document, as at 31 December 2020, the Group, in line with the approach adopted as at 30 June 2020 and 30 September 2020, has not yet adopted the new IFRS 9 transitional rules relating to adjustments to loans after 31 December 2019 or the reintroduction of the prudential filter for exposures to central governments classified to the FVTOCI category, both introduced by the Regulation (EU) 2020/873 of 24 June 2020 ("quick-fix").
For the purposes of calculating capital ratios at 31 December 2020, the Intesa Sanpaolo Group applied Commission Delegated Regulation (EU) 2020/2176, which entered into force on 23 December 2020 and which amends Commission Delegated Regulation (EU) 241/2014 as regards the deduction of software assets from Common Equity Tier 1 items. The Regulation, which is, inter alia, intended to support the transition to a more digitalised banking sector, introduces the criterion of prudential amortisation applied to all the mentioned assets over a three-year period, regardless of their estimated useful lives for accounting purposes. Specifically, the difference, if positive, between prudential accumulated amortisation and accounting accumulated amortisation (including impairment losses) is fully deducted from CET1. The remaining, i.e. the portion of the net carrying amount of each software asset not deducted as a result of the prudential treatment, is included in the RWAs with a 100% risk weight.

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As a "financial conglomerate" with a Parent Company of a banking group, Intesa Sanpaolo S.p.A., which controls the Intesa Sanpaolo Vita Insurance Group, on 9 September 2019 the Intesa Sanpaolo Group received permission from the ECB to calculate the Group's consolidated capital ratios, from the report as at 30 September 2019, using the Danish Compromise set out in Article 49 of Regulation (EU) 575/2013 (CRR), which allows banks that hold own funds instruments in insurance companies, subject to authorisation from their competent authorities, not to deduct those significant investments from Common Equity Tier 1 Capital (CET 1) and weight them at 370% among RWA. The insurance own funds instruments originating from the UBI Group, for which no request has yet been made for extension of the Danish Compromise, have not been included for the application of this treatment.
In addition, based on specific instructions received from the ECB, the T2 subordinated instruments issued by the Group's insurance companies and held by the Parent Company (609 million euro as at 31 December 2020) have been weighted among RWA.
For information on Group and Third-Party Consolidated Shareholders' Equity reference is made to paragraph B1 of Part F of the Notes to the 2020 consolidated financial statements.

Significant restrictions to transferring own funds or to liability repayment within the Group

The following are significant restrictions on the transfer of resources within the Intesa Sanpaolo Group.
On 23 December 2016, the subsidiary Private Equity International issued a new category of class C shares, equal to 5.6% of the company's capital. These shares do not have voting rights at the shareholders' meeting and their yield is related to the economic results of certain investments held by the same Private Equity International.
Moreover, the Intesa Sanpaolo Group is subject to supervisory rules provided by Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR) and controls financial institutions subject to the same or similar regulations aiming to maintain an adequate level of regulatory capital in relation to risks taken; therefore, the ability of subsidiary banks or financial institutions to distribute capital or dividends is dependent on the fulfilment of the regulatory thresholds set in those regulations.
In this respect, in line with the measures already taken in March 2020 (ECB/2020/19) and the recommendation issued in July (ECB/2020/35), on 15 December the ECB renewed its guidance to banks to exercise extreme prudence on dividends and share buybacks, recommending in particular that:
- they consider not distributing any cash dividends or to limit such distributions until 30 September 2021;
- if they still intend to distribute dividends or carry out share buybacks, they apply the lower of 15% of the cumulated profit for 2019-2020 and 20 bps in terms of CET 1 as a criterion;
- they be profitable and have robust capital trajectories if they intend to distribute dividends, and they are expected to contact their JST in advance to discuss whether the level of intended distribution is prudent;
- they refrain from distributing interim dividends out of their 2021 profits.

Lastly, within the Group, there are insurance companies subject to the Solvency Capital Requirements of Insurance companies established by the Solvency II legislation.

Aggregate amount of the capital deficiencies of the subsidiaries not included in the scope of consolidation with respect to any mandatory capital requirements

As at 31 December 2020, there were no capital deficiencies of the subsidiaries not included in the scope of consolidation with respect to the mandatory capital requirements.

Quantitative disclosure

Breakdown of Own Funds

The structure of the Intesa Sanpaolo Group's Own Funds as at 31 December 2020 is summarised in the table below.

(millions of euro)

	31.12.2020	31.12.2019
A. Common Equity Tier 1 (CET1) before the application of prudential filters	**57,717**	**48,520**
of which CET1 instruments subject to transitional adjustments	-	-
B. CET1 prudential filters (+ / -)	**706**	**641**
C. CET1 before items to be deducted and effects of transitional period (A +/- B)	**58,423**	**49,161**
D. Items to be deducted from CET 1	**-9,482**	**-10,209**
E. Transitional period - Impact on CET1 (+/-)	**2,129**	**2,590**
F. Total Common Equity Tier 1 (CET1) (C-D +/-E)	**51,070**	**41,542**
G. Additional Tier 1 (AT1) before items to be deducted and effects of transitional period	**7,486**	**4,096**
of which AT1 instruments subject to transitional adjustments	-	-
H. Items to be deducted from AT1	**-**	**-**
I. Transitional period - Impact on AT1 (+/-)	**-**	**-**
L. Total Additional Tier 1 (AT1) (G - H +/- I)	**7,486**	**4,096**
M. Tier 2 (T2) before items to be deducted and effects of transitional period	**9,632**	**7,244**
of which T2 instruments subject to transitional adjustments	-	-
N. Items to be deducted from T2	**-255**	**-187**
O. Transitional period - Impact on T2 (+ / -)	**-**	**-**
P. Total Tier 2 (T2) (M - N +/- O)	**9,377**	**7,057**
Q. Total own funds (F + L + P)	**67,933**	**52,695**

The tables below provide a detailed summary of the various capital levels before regulatory adjustments and transitional regime adjustments, together with the reconciliation between Common Equity Tier 1 and net book value.

Full reconciliation of the components of Common Equity Tier 1, Additional Tier 1 and Tier 2 Capital, as well as the filters and deductions applied to the institution's own funds and the balance sheet of the financial statements are shown at the end of this Section.

Attachment 1 details the full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments.

Attachment 2, on the other hand, reports the General Own Funds Disclosure Template envisaged in Implementing Regulation (EU) 1423/2013.

Reconciliation of net book value and Common Equity Tier 1 Capital

(millions of euro)

Captions	31.12.2020	31.12.2019
Group Shareholders' equity	65,871	55,968
Minority interests	450	554
Shareholders' equity as per the Balance Sheet	**66,321**	**56,522**
Adjustments for instruments eligible for inclusion in AT1 or T2 and net income for the period		
- Other equity instruments eligible for inclusion in AT1	-7,480	-4,091
- Minority interests eligible for inclusion in AT1	-6	-5
- Minority interests eligible for inclusion in T2	-5	-3
- Ineligible minority interests on full phase-in	-408	-511
- Ineligible net income for the period [(a)]	-821	-3,451
- Treasury shares included under regulatory adjustments	263	230
- Other ineligible components on full phase-in	-147	-171
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**57,717**	**48,520**
Regulatory adjustments (including transitional adjustments) [(b)]	**-6,647**	**-6,978**
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	**51,070**	**41,542**

(a) Common Equity Tier 1 capital as at 31 December 2020 includes the net income for 2020, less the related dividend (and foreseeable charges), calculated in accordance with Recommendation (ECB/2020/62) of 15 December 2020.

(b) Adjustments for the transitional period as at 31 December 2020 take account of the prudential filter, which allows re-inclusion in Common Equity of a portion of the impact of IFRS 9 (70% in 2020) set to decrease progressively until 2022.

Further details are provided below on the composition of each capital level making up Own Funds.

Common Equity Tier 1 Capital (CET1)

(millions of euro)

Information	31.12.2020	31.12.2019
Common Equity Tier 1 capital (CET1)		
Share capital - ordinary shares	10,084	9,086
Share premium reserve	27,444	25,075
Reserves (a)	17,408	13,246
Accumulated other comprehensive income (b)	294	347
Net income (loss) for the period	3,277	4,182
Net income (loss) for the period not eligible (c) (d)	-821	-3,451
Minority interests	31	35
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**57,717**	**48,520**
Common Equity Tier 1 capital (CET1): Regulatory adjustments		
Treasury shares	-263	-230
Goodwill	-3,814	-4,465
Other intangible assets	-2,946	-3,547
Deferred tax assets that rely on future profitability and do not arise from temporary differences	-1,824	-1,360
Negative amounts resulting from the calculation of expected losses (shortfall reserve)	-299	-316
Defined benefit pension funds assets	-	-
Prudential filters	706	641
- of which Cash Flow Hedge Reserve	*728*	*862*
- of which Gains or Losses due to changes in own credit risk (DVA)	*212*	*61*
- of which Prudent valuation adjustments	*-234*	*-282*
- of which Other prudential filters	-	-
Exposures to securitisations deducted rather than risk weighted at 1250%	-104	-142
CET1 instruments of financial sector entities where the institution does not have a significant investment, held directly, indirectly and synthetically, which exceed the threshold of 10% of Common Equity	-	-
Deductions with 10% threshold (e)	-	-
- of which Deferred tax assets (DTA) that rely on future profitability and arise from temporary differences	-	-
- of which CET1 instruments of financial sector entities where the institution has a significant investment, held directly, indirectly and synthetically	-	-
Deductions with threshold of 17.65% (e)	-	-
Positive or negative elements - other	-232	-149
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**-8,776**	**-9,568**
Total adjustments in the transitional period (CET1)	**2,129**	**2,590**
Common Equity Tier 1 (CET1) - Total	**51,070**	**41,542**

(a) Amount included in CET1, includes a negative effect of about 3,265 million euro deriving from the adoption of IFRS 9, and the 2019 income allocated to reserves.

(b) The caption "Accumulated other comprehensive income" includes a positive effect of about 328 million euro deriving from the adoption of IFRS 9.

(c) Common Equity Tier 1 capital as at 31 December 2020 includes the net income for 2020, less the related dividend (and foreseeable charges), calculated in accordance with Recommendation (ECB/2020/62) of 15 December 2020.

(d) As at 31.12.2019 the figure considers the dividends on 2019 results, the portion of the remuneration of the AT1 instruments issued at that date and the portion of 2019 income allocated to charity, net of the tax effect. It is also noted that, in compliance with the European Central Bank communication of 27 March 2020 (as amended by Recommendation of 27 July 2020) concerning the dividend policy in the situation resulting from the COVID 19 epidemic, the Shareholders' Meeting of 27 April 2020 approved the assignment of the net income for 2019 to reserves.

(e) See the specific table for the details of the calculation of the deduction thresholds.

For the purposes of calculating own funds as at 31 December 2020, account was taken of the net income for 2020, net of the related dividend (and other foreseeable expenses) calculated on the basis of the approach dictated by the European Central Bank, which, following the previous guidance in this regard, on 15 December 2020 published a Recommendation on dividend policies during the COVID-19 epidemic, asking significant credit institutions to exercise utmost caution when making decisions on dividends or dividend distributions to remunerate shareholders and reserving the right to review the Recommendation before 30 September 2021, when, in the absence of significant adverse developments, it intends to repeal the Recommendation and resume assessing banks' capital and distribution plans based on the outcomes of the normal supervisory cycle. In particular, the European Central Bank generally recommends that distributions by banks should not

exceed the lower of: i) 15% of their accumulated profit for the financial years 2019 and 2020; and ii) 20 basis points in terms of the Common Equity Tier 1 ratio. In view of the above and considering our Bank's sound capital base, the distribution from the 2020 net income of a dividend of approximately 694 million euro was considered, equal to 20 basis points in terms of the Common Equity Tier 1 ratio at consolidated level, an amount that represents the lower of the two parameters indicated above and enables full compliance with the Recommendation of the European Central Bank.
Own funds as at 31 December 2019 had been calculated considering the income for 2019 net of the component that the Issuer's Board of Directors, during its session of 25 February 2020, had proposed be allocated to dividends for a total of 3,362 million euro; following the ECB's Recommendation of 27 March 2020 regarding dividend policies in the situation resulting from the Covid-19 epidemic, on 31 March 2020 Intesa Sanpaolo's Board of Directors amended the proposal to the Shareholders' Meeting for the allocation of the net income reported in the Financial Statements as at 31 December 2019, adopting the European Central Bank's Recommendation not to distribute dividends in view of the economic environment created by the epidemic, and instead proposing that the share of the net income allocated to dividends in the previous resolution dated 25 February 2020 be assigned to reserves. On 27 April 2020, the Shareholders' Meeting approved the assignment of the net income for 2019 to reserves. Accordingly, Common Equity Tier 1 capital as at 31 December 2020 includes, among reserves, the entire net income for 2019, less the foreseeable other charges (accrued coupon on Additional Tier 1 instruments and charitable giving). In its communication of 27 July 2020, the European Central Bank then extended its recommendation that dividends not be distributed until 1 January 2021, from the previous date of 1 October 2020 indicated in the recommendation dated 27 March 2020. This period was then further extended until 30 September 2021 in the aforementioned Recommendation of 15 December 2020, in which the European Central Bank encourages banks not to distribute dividends or to distribute them to a limited extent.

As envisaged by Article 253 of Regulation (EU) 575/2013 (as amended by Regulation 2017/2401) which governs the case, in place of the weighting of the positions towards securitisations that meet the requirements to receive a weighting of 1,250%, it was chosen to proceed with the direct deduction of these exposures from the Own Funds. The amount of such deduction as at 31 December 2020 is equal to -104 million euro.

Additional Tier 1 Capital (AT1)

(millions of euro)

Information	31.12.2020	31.12.2019
Additional Tier 1 capital (AT1)		
AT1 instruments	7,480	4,091
Minority interests	6	5
Additional Tier 1 capital (AT1) before regulatory adjustments	**7,486**	**4,096**
Regulatory adjustments to Additional Tier 1 (AT1)	**-**	**-**
Adjustments in the transitional period, including minority interests (AT1)	**-**	**-**
AT1 instruments eligible for grandfathering	**-**	**-**
Additional Tier 1 (AT1) - Total	**7,486**	**4,096**

Additional Tier 1 (AT1) equity instruments

Issuer	Interest rate	Step-up	Issue date	Expiry date	Early redemption as of	Currency	Subject to grandfather-ing	Original amount in currency	Contribution to the own funds (millions of euro)
Intesa Sanpaolo	7.70% fixed rate (up to the first call date)	NO	17-Sep-2015	perpetual	17-Sep-2025	Usd	NO	1,000,000,000	881
Intesa Sanpaolo	7% fixed rate (up to the first call date)	NO	19-Jan-2016	perpetual	19-Jan-2021	Eur	NO	1,250,000,000	1,246
Intesa Sanpaolo	7.75% fixed rate (up to the first call date)	NO	11-Jan-2017	perpetual	11-Jan-2027	Eur	NO	1,250,000,000	1,247
Intesa Sanpaolo	6.25% fixed rate (up to the first call date)	NO	16-May-2017	perpetual	16-May-2024	Eur	NO	750,000,000	744
Intesa Sanpaolo	3.75% fixed rate (up to the first call date)	NO	27-Feb-2020	perpetual	27-Feb-2025	Eur	NO	750,000,000	737
Intesa Sanpaolo	4.125% fixed rate (up to the first call date)	NO	27-Feb-2020	perpetual	27-Feb-2030	Eur	NO	750,000,000	744
Intesa Sanpaolo	5.875% fixed rate (up to the first call date)	NO	01-Sep-2020	perpetual	01-Sep-2031	Eur	NO	750,000,000	746
Intesa Sanpaolo	5.5% fixed rate (up to the first call date)	NO	01-Sep-2020	perpetual	01-Mar-2028	Eur	NO	750,000,000	745
Ubi Banca	5.875% fixed rate (up to the first call date)	NO	20-Jan-2020	perpetual	20-Jan-2025	Eur	NO	400,000,000	390
Total Additional Tier 1 equity instruments									**7,480**

Tier 2 Capital (T2)

(millions of euro)

	31.12.2020	31.12.2019
Tier 2 Capital (T2)		
T2 Instruments	9,627	7,241
Minority interests	5	3
Excess of provisions over expected losses eligible (excess reserve)	-	-
Tier 2 capital before regulatory adjustments	**9,632**	**7,244**
Tier 2 Capital (T2): Regulatory adjustments		
T2 instruments of financial sector entities where the institution does not have a significant investment, held directly, indirectly and synthetically	-	-
T2 instruments of financial sector entities where the institution has a significant investment, held directly, indirectly and synthetically	-255	-187
Positive or negative items - other	-	-
Total regulatory adjustments to Tier 2 (T2)	**-255**	**-187**
Total adjustments in the transitional period, including minority interests (T2)	**-**	**-**
Tier 2 Capital (T2) - Total	**9,377**	**7,057**

Tier 2 (T2) equity instruments

Issuer	Interest rate	Step-up	Issue date	Expiry date	Early redemption as of	Currency	Subject to grandfathering	Original amount in currency	Contribution to the own funds (millions of euro)
Intesa Sanpaolo	6.625% fixed rate	NO	13-Sep-2013	13-Sep-2023	NO	Eur	NO	1,445,656,000	855
Intesa Sanpaolo	5.017% fixed rate	NO	26-Jun-2014	26-Jun-2024	NO	Usd	NO	2,000,000,000	1,225
Intesa Sanpaolo	3.928% fixed rate	NO	15-Sep-2014	15-Sep-2026	NO	Eur	NO	1,000,000,000	1,080
Intesa Sanpaolo	2.855% fixed rate	NO	23-Apr-2015	23-Apr-2025	NO	Eur	NO	500,000,000	454
Intesa Sanpaolo	3-month Euribor + 237 bps/4	NO	30-Jun-2015	30-Jun-2022	NO	Eur	NO	781,962,000	228
Intesa Sanpaolo	5.71% fixed rate	NO	15-Jan-2016	15-Jan-2026	NO	Usd	NO	1,500,000,000	1,312
Intesa Sanpaolo	3-month Euribor + 1.9%/4	NO	26-Sep-2017	26-Sep-2024	NO	Eur	NO	724,000,000	534
Intesa Sanpaolo	1.98% fixed rate	NO	11-Dec-2019	11-Dec-2026	NO	Eur	NO	160,250,000	155
Intesa Sanpaolo	3-month Euribor + 206 bps/4	NO	11-Dec-2019	11-Dec-2026	NO	Eur	NO	188,000,000	180
Intesa Sanpaolo	5.148% fixed rate	NO	10-Jun-2020	10-Jun-2030	NO	GBP	NO	350,000,000	377
Intesa Sanpaolo	3.75% fixed rate	NO	29-Jun-2020	29-Jun-2027	NO	Eur	NO	309,250,000	300
Intesa Sanpaolo	3-month Euribor + 405 bps/4	NO	29-Jun-2020	29-Jun-2027	NO	Eur	NO	590,500,000	555
Intesa Sanpaolo	2,925% fixed rate	NO	14-Oct-2020	14-Oct-2030	NO	Eur	NO	350,000,000	322
Intesa Sanpaolo	2,925% fixed rate	NO	07-Dec-2020	14-Oct-2030	NO	Eur	NO	150,000,000	153
Ubi Banca	4.25% fixed rate	NO	05-May-2016	05-May-2026	NO	Eur	NO	750,000,000	734
Ubi Banca	4.45% fixed rate	NO	15-Mar-2017	15-Sep-2027	NO	Eur	NO	500,000,000	433
Ubi Banca	5.875% fixed rate	NO	04-Mar-2019	04-Mar-2029	NO	Eur	NO	500,000,000	481
Ubi Banca	4.375% fixed rate	NO	12-Jul-2019	12-Jul-2029	NO	Eur	NO	300,000,000	249
Total Tier 2 instruments									**9,627**

Deduction thresholds for DTAs and investments in companies operating in the financial sector

(millions of euro)

	31.12.2020	31.12.2019
A. Threshold of 10% for CET1 instruments of financial sector entities where the institution does not have a significant investment	4,894	3,895
B. Threshold of 10% for CET1 instruments of financial sector entities where the institution has a significant investment and for DTA that rely on future profitability and arise from temporary differences	4,894	3,895
C. Threshold of 17.65% for significant investments and DTA not deducted in the threshold described under point B	7,401	6,280

The regulations envisage that for certain regulatory adjustments, such as those for DTAs based on future income and deriving from temporary differences, and for significant and minor investments in CET1 instruments issued by companies in the financial sector, certain thresholds or "deductibles" are specified, calculated on Common Equity estimated using different approaches:

- for minor investments in CET1 instruments issued by companies in the financial sector, the deduction of amounts exceeding 10% of CET1 prior to deductions deriving from exceeding the thresholds is envisaged;
- for significant investments in CET1 instruments and DTAs, however, an initial threshold on deductions is envisaged, still calculated as 10% of CET1 prior to deductions deriving from exceeding the thresholds, adjusted to take into account any excess over the threshold described in the previous point. A further threshold is indicated, calculated on 17.65% of Common Equity adjusted for the above 10% threshold, to be applied in aggregate on amounts not deducted using the first threshold.

All amounts not deducted must be weighted among risk-weighted assets at 250%.

Changes in Own Funds

The changes in Own Funds during the year are shown below.

OWN FUNDS	01.01.2020 - 31.12.2020
Common Equity Tier 1 capital (CET1)	
Balance as at 31.12.2019	**41,542**
Change IFRS 9 filter	-461
Initial amount 01.01.2020	**41,081**
Shares issued during the period and relates share premium [a]	3,367
Changes in reserves [b]	4,162
Accumulated other comprehensive income	-53
Net income for the period (net of foreseeable dividends) [c]	1,725
Minority interests	-4
Regulatory adjustments	**792**
Prudential filters	65
Own CET1 instruments	-33
Goodwill and other intangible assets [d]	1,252
Deferred tax assets that rely on future profitability and do not arise from temporary differences [e]	-464
Deferred tax assets that rely on future profitability and arise from temporary differences	-
Significant and non-significant investments in CET1 instruments of the financial sector	-
Amount by which expected losses exceed total impairment provisions on IRB positions	17
Deductions deriving from securitisations	38
Other deductions	-83
Final amount 31.12.2020	**51,070**
Additional Tier 1 (AT1)	
Initial amount 01.01.2020	**4,096**
Issues/redemptions of AT1 instruments [f]	3,389
Minority interests	1
Regulatory adjustments	**-**
Own AT1 instruments	-
Non-significant investments in AT1 instruments of the financial sector	-
Significant investments in AT1 instruments of the financial sector	-
Transitional adjustments and instruments eligible for grandfathering	-
Final amount 31.12.2020	**7,486**
Tier 2 (T2)	
Initial amount 01.01.2020	**7,057**
Issues/redemptions of T2 instruments [g]	2,386
Minority interests	2
Excess adjustments over expected losses (excess reserve)	-
Regulatory adjustments	-68
Own T2 instruments	-
Non-significant investments in T2 instruments of the financial sector	-
Significant investments in T2 instruments of the financial sector	-68
Transitional adjustments and instruments eligible for grandfathering	-
Final amount 31.12.2020	**9,377**
Total Own Funds at the end of the year	**67,933**

Below is a summary analysis of the main changes in Own Funds during the year.

Common Equity Tier 1 capital (CET1)

a. The increase in shares issued during the period and related share premium was attributable to the capital increase carried out to service the UBI Public Purchase and Exchange Offer.
b. The increase in reserves was attributable to the retained earnings for the previous year and other minor effects.
c. The change in the period, amounting to 1,725 million euro, was attributable to the difference between the net income eligible for inclusion in Own Funds as at 31 December 2020, amounting to 2,456 million euro (consolidated net income for the period of 3,277 million euro net of dividend distributions and other foreseeable charges of 821 million euro) and the net income eligible for inclusion in Own Funds as at 31 December 2019, amounting to 731 million euro.

d. The increase in goodwill and other intangible assets was attributable to:
   - Impairment of goodwill carried out in 2020, including the portion attributable to the branches sold as part of the acquisition of UBI Banca[5] (+963 million euro).
   - Reduction in goodwill following the sale of Autostrade Lombarde (+171 million euro).
   - Reduction in goodwill (+49 million euro) and other intangible assets (+22 million euro) following the sale of Nexi.
   - Increase in goodwill following the acquisition of RBM Salute (-279 million euro).
   - Higher goodwill recognised on equity investments carried at equity following PPA (-183 million euro).
   - Decrease in deduction on other intangible assets as a result of the new prudential treatment of software (RTS EBA 12/2020) (+1,249 million euro).
   - Increase in other intangible assets arising from the acquisition of the UBI Group, including the assets recognised following PPA (-604 million euro).
   - Increase in other intangible assets resulting from purchases made by the Group during the year (-215 million euro).
   - Reduction of deferred taxation on goodwill (mainly as a result of the impairment process) (-61 million euro) and increase in deferred taxation on other intangible assets (+149 million euro).
   - Other minor items (-9 million euro).

e. The changes in Deferred tax assets that rely on future profitability and do not arise from temporary differences were mainly attributable to the deferred tax assets on losses brought forward arising from the acquisition of the UBI Group.

Additional Tier 1 - AT1

f. The change was attributable to the issue of new equity instruments by the Group during the year.

Tier 2 (T2)

g. Five new T2 instruments were issued and one instrument matured during the year, partly offset by the period amortisation for instruments with a maturity of less than 5 years and other minor changes.

[5] For more detailed information, see the Intesa Sanpaolo Group's 2020 Annual Report.

Full reconciliation of the components of Common Equity Tier 1, Additional Tier 1 and Tier 2 Capital, as well as the filters and deductions applied to the institution's own funds and the balance sheet of the financial statements

(millions of euro)

	Financial statements scope	Prudential scope	Relevant amount for the purpose of own funds	See table "Own funds disclosure template"
TOTAL ACCOUNTING DATA, OF WHICH			**68,948**	
Assets				
70. Investments in associates and companies subject to joint control	1,996	9,103	-623	8, 19
of which: implicit goodwill in associated companies IAS 28-31	*623*	*1,397*	*-623*	*8, 19*
100. Intangible assets	8,194	7,265	-6,836	8
of which: goodwill	*3,154*	*2,380*	*-3,199*	*8*
of which: other intangible assets	*5,040*	*4,885*	*-3,637*	*8*
110. Tax assets	19,503	18,813	-1,824	10
of which: tax assets that rely on future profitability and do not arise from temporary differences net of the related deferred tax liability	*2,122*	*2,122*	*-2,122*	*10*
Liabilities				
10. Securities issued	91,834	93,754	9,627	33, 46, 47, 52
of which: subordinated instruments subject to transitional arrangements	-	-	-	*33, 47*
of which: subordinated instruments not subject to transitional arrangements	-	*9,627*	*9,627*	*46, 52*
60. Tax liabilities	3,029	2,019	698	8
a) Current tax liabilities	284	239	N.A.	
b) Deferred tax liabilities	2,745	1,780	N.A.	
of which: tax liabilities related to goodwill and other intangible assets	-	-	*698*	*8*
120. Valuation reserves	294	294	1,125	3, 11
of which: valuation reserves on securities available for sale	*809*	-	*755*	
of which: valuation reserves on financial assets measured at fair value through other comprehensive income	*91*	*847*	*91*	
of which: valuation reserves on cash flow hedges	*-781*	*-729*	-	*11*
of which: foreign exchange differences	*-1,177*	*-1,177*	*-1,177*	*3*
of which: legally-required revaluations	*1,878*	*1,878*	*1,878*	*3*
of which: valuation reserves on net actuarial losses	*-422*	*-422*	*-422*	*3*
of which: other	*-104*	*-104*	-	
140 Equity instruments	7,441	7,441	7,480	
150. Reserves	17,461	17,461	19,538	2
of which: impact of the adoption of IFRS 9 net of transitional arrangements		-	*2,129*	*9*
160. Share premium reserve	27,444	27,444	27,444	1
170. Share capital	10,084	10,084	10,084	1, 30
of which: ordinary shares	*10,084*	*10,084*	*10,084*	*1*
180. Treasury shares (-)	-130	-130	-263	16
190. Minority interests (+/-)	450	364	42	5, 34, 48
of which CET1 compliant		-	*31*	*5*
of which AT1 compliant		-	*6*	*34*
of which T2 compliant		-	*5*	*48*
200. Net income (loss) for the period (+/-)	3,277	3,277	2,456	5a
of which net income (loss) for the period, net of the dividend in distribution on the net income (loss) for the period			*2,456*	*5a*
OTHER COMPONENTS OF OWN FUNDS, OF WHICH:			**-1,015**	
Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities			109	14
Value adjustments due to the requirements for prudent valuation			-234	7
Exposures to securitisations deducted rather than risk weighted at 1250%			-104	20a, 20c
IRB shortfall of credit risk adjustments to expected losses			-299	12
IRB Excess of provisions over expected losses eligible			-	50
Filter on unrealised capital gains on real properties			-	20
Direct and indirect holdings of Tier 2 instruments of financial sector entities where the institution has a significant investment			-255	55
Indirect investments and irrevocable payment commitments			-232	20
Total own funds as at 31 December 2020			**67,933**	

Section 4 - Capital Requirements

Qualitative disclosure

Assessment of the adequacy of the Bank's internal capital

The management of capital adequacy consists of a series of policies that determine the size and optimal combination of the various capitalisation instruments, in order to ensure that the levels of capital of the Group and its banking subsidiaries are consistent with the risk profile assumed and meet the supervisory requirements.
The concept of capital at risk differs according to the basis for its measurement, and different target levels of capitalisation are established:

- Regulatory capital covering Pillar 1 risks;
- Overall Economic Capital for Pillar 2 risks (ICAAP).

The Regulatory Capital and the overall Economic Capital differ in terms of their definition and the coverage of risk categories. The former derives from the formats laid down by the supervisory provisions and the latter from the identification of the significant risks for the Intesa Sanpaolo Group and the consequent use of internal models for the exposure assumed.
Capital Management essentially involves the control of capital adequacy through the careful monitoring of both the regulatory constraints (Basel 3 Pillar 1) and current and prospective operational constraints (Pillar 2) in order to anticipate any critical situations within a reasonable period of time and identify possible corrective measures for the generation or recovery of capital.
Accordingly, the capital adequacy assessment process is based on a "twin track" approach: Regulatory Capital for compliance with the Pillar 1 requirements and overall Economic Capital for the Pillar 2 ICAAP process.

The Intesa Sanpaolo Group assigns a primary role to the management and allocation of capital resources, also to run its operations. In this regard, the allocation of capital to the different Business Units is established on the basis of their specific capacity to contribute to the creation of value, taking into account the level of return expected by the shareholders. To this end, internal systems are used to measure performance (EVA) on the basis of both the Regulatory Capital and the Economic Capital.
Verification of compliance with supervisory requirements and consequent capital adequacy is continuous and depends upon the objectives set out in the Business Plan.
First verification occurs as part of the process of defining budget targets: based on the growth trends expected for loans, other assets and income statement aggregates, the risks are measured and their compatibility with compulsory capital ratios for individual banks and for the Group as a whole is assessed.
Compliance with capital adequacy is obtained via various levers, such as the payout policy, the definition of strategic finance operations (capital increases, issue of convertible loans and subordinated bonds, disposal of non-core assets, etc.) and the management of the loan policy on the basis of counterparty risk.
This dynamic management approach is aimed at identifying the most suitable capital instruments for the achievement of the objectives.
Compliance with the target levels of capitalisation is monitored during the year and on a quarterly basis, taking appropriate actions, where necessary, for the management and control of the balance sheet aggregates.
A further step in the preventive analysis and control of the Group's capital adequacy takes place whenever extraordinary operations (such as acquisitions, disposals, joint ventures etc.) are resolved upon. In this case, on the basis of the information on the operation to be conducted, its impact on capital ratios is estimated and any necessary actions to ensure compliance with the requirement set forth by Supervisory Authorities are planned.

As already mentioned, the Intesa Sanpaolo Group attaches great importance to risk management and control to ensure reliable and sustainable value creation in a context of controlled risk.

The Economic Capital, defined as the maximum "unexpected" loss that the Group may incur over a period of one year, is a key measure for determining the Group's financial structure and risk tolerance and for guiding its operations, ensuring the balance between risks assumed and shareholder return.
The level of absorption of Economic Capital is estimated on the basis of the current situation, and also from a forward-looking perspective, in accordance with the Risk Appetite Framework, approved by the Group, based on the budget assumptions and the projected economic scenario.

The absorption of Economic Capital by Business Unit reflects the distribution of the Group's various activities and the specialisations of the business areas.

The following graphs show the breakdown of the Group's Economic Capital by Business Unit and by type of risk.

Absorption of Economic Capital by type of risk and Business Unit

The majority of risk is concentrated in the "IMI Corporate & Investment Banking" Business Unit (30.8% of the total Economic Capital): this is attributable to the type of customers served (Corporate and Financial Institutions) and Capital Market activities. This Business Unit is assigned a significant share of credit risk and trading book risk.
The "Banca dei Territori" Business Unit (15.8% of the total Economic Capital) is a significant source of absorption of Internal Capital, in line with its role as core business of the Group, serving Retail, Private and Small/Middle Corporate customers. It is assigned a sizeable portion of credit risk and operational risk.
Most of the insurance risk is assigned to the "Insurance" Business Unit (12.0% of the total Economic Capital).
The "International Subsidiary Banks" Business Unit is assigned 8.6% of the total risk, predominantly credit risk.
In addition to credit risk, the "Corporate Centre" is attributed with the risks typical of this Business Unit, namely those resulting from investments, the risks pertaining to the exposures in default, the Banking Book interest rate and exchange rate risk, the risks arising from the management of the Parent Company's FVTOCI portfolio (20.2% of the overall Economic Capital).
Absorption of Economic Capital by the "Private Banking" and "Asset Management" Business Units is marginal (1.9% and 0.5%, respectively) due to the nature of their business, which is predominantly aimed at asset management activities.
The remaining capital absorption (10.2%) is attributable to the UBI Group.

In accordance with the provisions established by the new rules on capital adequacy, the Group has completed the actions aimed at meeting the Pillar 2 requirements, by preparing and sending the ICAAP Reports to the Supervisory Authority - on approval by the Corporate Bodies - with the figures for the previous year on a consolidated basis. The Group has also substantially completed the ICAAP Report on the figures as at 31 December 2020 and the forecasts over a three-year period, and the final document is due to be sent to the Supervisor by 30 April 2021. The results of the ICAAP process confirm the Group's capital adequacy: the financial resources available ensure, with adequate margins, coverage of all current and prospective risks, also in stress conditions.

Quantitative disclosure

According to the regulations for the prudential supervision of banks (Bank of Italy Circular 285 of 17 December 2013 and subsequent amendments), which adopt the provisions on capital measurement and capital ratios (Basel 3), the Banking Group's total own funds must amount to at least 12.59% of total risk-weighted assets (total capital ratio including the minimum requirement for Pillar 1, the additional Pillar 2 requirement of 1.5%, the capital conservation buffer of 2.5% on a fully-loaded basis already from 2019, the additional O-SII Buffer (Other Systemically Important Institutions Buffer) of 0.56% under the transitional arrangements in force for 2020, and the institution-specific countercyclical capital buffer of 0.03% in the fourth quarter of 2020) arising from the risks typically associated with banking and financial activity (credit, counterparty, market and operational risk), weighted according to the regulatory segmentation of borrowers and considering credit risk mitigation techniques and the decrease in operational risks as a result of insurance coverage. The competent authorities, as part of the Supervisory Review and Evaluation Process (SREP), may require higher capital requirements compared to those resulting from the application of the regulatory provisions.

As already illustrated in the Section on "Own Funds", the total regulatory capital is made up of the algebraic sum of the elements specified below:

- Tier 1 Capital (capable of absorbing losses under going concern conditions). This capital is divided into Common Equity Tier 1 Capital and Additional Tier 1 Capital;
- Tier 2 Capital (capable of absorbing losses in the event of a crisis).

The elements indicated above are subject to the following limits:

- Common Equity Tier 1 must at all times be equal to at least 4.5% of risk-weighted assets;
- Tier 1 Capital must at all times be equal to at least 6% of risk-weighted assets;
- Own Funds (i.e. the total regulatory capital), equal to Tier 1 plus Tier 2 Capital, must at all times be equal to at least 8.0% of risk-weighted assets.

Following the Supervisory Review and Evaluation Process (SREP), the ECB annually makes a final decision on the capital requirement that Intesa Sanpaolo must comply with at consolidated level.

On 26 November 2019, Intesa Sanpaolo received the ECB's final decision concerning the capital requirement that the Bank has to meet, as of 1 January 2020.
When the regulatory amendment introduced by the ECB with effect from 12 March 2020 – which establishes that the Pillar 2 requirement may be met by partially using capital instruments other than Common Equity Tier 1 – is applied, the overall capital requirement the Bank is required to meet in terms of Common Equity Tier 1 ratio is 8.40% under the transitional arrangements for 2020 and 8.59% on a fully loaded basis.
This is the result of:

a) an SREP requirement in terms of Total Capital ratio of 9.5%, comprising a minimum Pillar 1 capital requirement of 8%, and an additional Pillar 2 capital requirement of 1.5%, of which 4.5% and 0.84%, respectively, in the Common Equity Tier 1 ratio and 6% and 1.13%, respectively, in the Tier 1 ratio;
b) the additional Capital Conservation Buffer requirement of 2.5% on a fully-loaded basis already from 2019 and the additional O-SII Buffer (Other Systemically Important Institutions Buffer) of 0.56% under the transitional arrangements in force for 2020 and 0.75% on a fully-loaded basis in 2021.

Considering the additional requirement consisting of the Institution-Specific Countercyclical Capital Buffer[6], the Common Equity Tier 1 ratio to be met is 8.44% under the transitional arrangements in force for 2020 and 8.63% on a fully loaded basis.

On 25 November 2020, Intesa Sanpaolo received the ECB's final decision concerning the capital requirement that the Bank has to meet, as of 1 January 2021. The overall capital requirement the Bank has to meet in terms of Common Equity Tier 1 ratio is 8.59% for 2021 on a fully loaded basis.
This is the result of:

a) an SREP requirement in terms of Total Capital ratio of 9.5%, comprising a minimum Pillar 1 capital requirement of 8%, and an additional Pillar 2 capital requirement of 1.5%, of which 4.5% and 0.84%, respectively, in the Common Equity Tier 1 ratio and 6% and 1.13%, respectively, in the Tier 1 ratio;
b) the additional Capital Conservation Buffer requirement of 2.5% on a fully-loaded basis already from 2019 and the additional O-SII Buffer (Other Systemically Important Institutions Buffer) of 0.75% on a fully-loaded basis in 2021.

Considering the additional requirement consisting of the Institution-Specific Countercyclical Capital Buffer[7], the Common Equity Tier 1 ratio to be met is 8.63% on a fully loaded basis.

[6] Countercyclical Capital Buffer calculated taking into account the exposures as at 31 December 2020 in the various countries where the Group has a presence, as well as the respective requirements set by the competent national authorities and relating to the 2020-2021 period, where available, or the most recent update of the reference period (requirement was set at zero per cent in Italy for 2020 and Q1 2021).

[7] See the previous note.

Overview of RWAs (EU OV1 LG EBA 2016/11)

(millions of euro)

			RWAs		MINIMUM CAPITAL REQUIREMENTS
			31.12.2020	30.09.2020	31.12.2020
	1	**Credit risk (excluding CCR)**	**266,383**	**269,836**	**21,311**
Article 438(c)(d)	*2*	*Of which the standardised approach*	*82,598*	*82,951*	*6,608*
Article 438(c)(d)	*3*	*Of which the foundation IRB (FIRB) approach*	*999*	*1,199*	*80*
Article 438(c)(d)	*4*	*Of which the advanced IRB (AIRB) approach*	*154,835*	*159,841*	*12,387*
Article 438(d)	*5*	*Of which equity with simple risk-weighted approach or PD/LGD*	*27,951*	*25,845*	*2,236*
Article 107 Article 438(c)(d)	**6**	**CCR**	**7,977**	**8,109**	**638**
Article 438(c)(d)	*7*	*Of which mark to market*	*1,641*	*1,840*	*131*
Article 438(c)(d)	*8*	*Of which original exposure*	-	-	-
	9	*Of which the standardised approach*	-	-	-
	10	*Of which internal model method (IMM)*	*5,059*	*5,018*	*405*
Article 438(c)(d)	*11*	*Of which risk exposure amount for contributions to the default fund of a CCP*	*360*	*229*	*29*
Article 438(c)(d)	*12*	*Of which CVA*	*917*	*1,022*	*73*
Article 438(e)	**13**	**Settlement risk**	**-**	**-**	**-**
Article 449(o)(i)	**14**	**Securitisation exposures in the banking book (after the cap)**	**9,842**	**7,762**	**787**
	15	*Of which IRB approach*	-	-	-
	16	*Of which IRB supervisory formula approach (SEC-IRBA)*	*7,095*	*5,475*	*567*
	17	*Of which internal assessment approach (IAA)*	-	-	-
	18	*Of which standardised approach (SEC-SA and SEC-ERBA)*	*2,747*	*2,287*	*220*
Article 438 (e)	**19**	**Market risk**	**19,521**	**18,226**	**1,562**
	20	*Of which the standardised approach*	*2,291*	*2,506*	*183*
	21	*Of which IMA*	*17,230*	*15,720*	*1,379*
Article 438(e)	**22**	**Large exposures**	**-**	**-**	**-**
Article 438(f)	**23**	**Operational risk**	**27,559**	**26,282**	**2,205**
	24	*Of which basic indicator approach*	*636*	*617*	*51*
	25	*Of which standardised approach*	*4,077*	*3,415*	*326*
	26	*Of which advanced measurement approach*	*22,846*	*22,250*	*1,828*
Article 437(2), Article 48 and Article 60	**27**	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**15,790**	**12,036**	**1,263**
Article 500	**28**	**Floor adjustment**	**-**	**-**	**-**
	29	**TOTAL**	**347,072**	**342,251**	**27,766**

The total amount of risk-weighted exposures recorded as at 31 December 2020 was around 347 billion euro, with a change of approximately +4.8 billion euro compared to September 2020. In particular, please note the following:

- for credit risk (excluding counterparty risk), a reduction in the exposures relating to the IRB portfolios – generated by the Corporate segments, particularly as a result of securitisations and the increase in the coverage on loans backed by government guarantees linked to COVID-19 related measures, and by the Retail portfolios, as a result of securitisations and a reduction in exposure volumes – as well as an increase in equity instruments, mainly reflecting the higher exposure in subordinated T2 instruments;
- counterparty risk is stable overall;
- for the securitisations included in the banking book, an increase mainly attributable to the completion of new synthetic securitisations;
- for market risk, the change in the IMA models was attributable to the increase in exposures to government bonds with medium/long-term maturities, which occurred in the first part of the quarter and subsequently decreased, and in credit indices in protection purchases. The growth in the requirements was only partially offset by the revision of the prudential VaR and Stressed VaR multipliers following the ECB communication (17 December 2020) on the 2017 TRIM inspection;
- for operational risk, a change due to the half-yearly update of the component calculated using advanced models and the increase in the values determined using the standardised approach; in both cases the most significant increase was linked to the scope of the former UBI Banca Group;
- with regard to the amounts below the thresholds for deduction (250%), there was an increase mainly due to greater significant investments and deferred tax assets (DTAs).

For details of the RWA changes with the IRB, IMM and IMA approaches, see the qualitative comments at the bottom of the RWA flow statements below (EU CR8, EU CCR7 and EU MR2-B).
It is noted that, as required by the rules (EBA/GL/2016/11), these tables show the movements of RWAs during the last quarter.

RWA flow statements of credit risk exposures under the IRB approach in the fourth quarter (EU CR8 EBA GL 2016/11)

(millions of euro)

		RWA amounts	Capital requirements
1	**RWAs as at 30 September 2020**	**190,771**	**15,262**
2	Asset size	703	56
3	Asset quality	1,480	118
4	Model updates	-	-
5	Methodology and policy	-294	-24
6	Acquisitions and disposals	-	-
7	Foreign exchange movements	-555	-44
8	Other	-4,612	-369
9	**RWAs as at 31 December 2020 (*)**	**187,493**	**14,999**

(*) As at 31 December 2020, the RWA relating to IRB models amounted to 187,493 million euro and was attributable to the Foundation IRB approach for 999 million euro (Row 3 EU OV1), to the Advanced IRB approach for 154,835 million euro (Row 4 EU OV1), to equity instruments measured using the simple weighted average or PD/LGD approach for 27,951 million euro (Row 5 EU OV1), and to amounts below the deduction thresholds for 3,708 million euro (Row 27 EU OV1).

The aggregate of the RWAs relating to the exposures subject to credit risk measured using advanced approaches[8] was identified as 187,493 million euro in December 2020, down on 190,771 million euro in the previous quarter. The changes during the period related to regulatory and lending aspects were mainly attributable to the following components:

- 1,480 million euro due to an improvement in the credit rating of the counterparties in the portfolio;
- 703 million euro due to an increase in operating volumes;
- -294 million euro due to the application of the Infrastructure Supporting Factor for exposures to entities that operate or finance physical structures or facilities, systems and networks that support essential public services (Article 501a of CRR II anticipated by Article 2(1)(c) of Regulation (EU) 2020/873 of the European Parliament and of the Council amending Regulations (EU) No 575/2013 and (EU) 2019/876);
- -555 million euro due to changes in exchange rates for foreign currency exposures, in particular for the exposures denominated in US dollars;
- -4,612 million euro mainly due to the completion of two new originated synthetic securitisations (-2.2 billion euro) and a new originated traditional securitisation (Rey) relating to a portfolio of bad loans (-1.0 billion euro).

[8] The risk-weighted exposures have been calculated in accordance with the instructions of the CRR, Part Three, Title II, Chapter 3, and the capital requirement has been calculated in accordance with Article 92(3)(a).

RWA flow statements of CCR exposures under the IMM (Internal Model Method) in the fourth quarter (EU CCR7 LG EBA 2016/11)

(millions of euro)

		RWA amounts	Capital requirements
1	**RWAs as at 30 September 2020**	**5,018**	**401**
2	Asset size	-233	-19
3	Credit quality of counterparties	370	30
4	Model updates (IMM only)	-	-
5	Methodology and policy (IMM only)	-92	-7
6	Acquisitions and disposals	-	-
7	Foreign exchange movements	-	-
8	Other	-4	-
9	**RWAs as at 31 December 2020**	**5,059**	**405**

With regard to the changes in RWAs related to CCR exposures (derivatives and SFTs, determined based on the IMM, in accordance with part three, title II, chapter 6 of the CRR) the value of the aggregate was essentially stable during the quarter: 5,018 million euro at the end of September 2020 and 5,059 million euro at the end of December 2020. The change of 41 million euro was mainly attributable to the following components:

- 370 million euro due to the deterioration in the credit rating of the counterparties in the portfolio;
- -92 million euro due to the application of the Infrastructure Supporting Factor for exposures to entities that operate or finance physical structures or facilities, systems and networks that support essential public services (Article 501a of CRR II anticipated by Article 2(1)(c) of Regulation (EU) 2020/873 of the European Parliament and of the Council amending Regulations (EU) No 575/2013 and (EU) 2019/876);
- -233 million euro due to the reduction in exposures in the portfolio.

RWA flow statements of market risk exposures under the IMA in the fourth quarter (EU MR2-B LG EBA 2016/11)

(millions of euro)

		VaR	SVaR	IRC	Comprehensive risk measure	Other	Total RWAs	Total capital requirements
1	**RWAs as at 30 September 2020**	**5,969**	**7,195**	**2,326**	**-**	**230**	**15,720**	**1,258**
1a	*Regulatory adjustment*	*4,027*	*4,119*	*474*	*-*	*3*	*8,623*	*690*
1b	*RWAs at the previous quarter-end (end of the day)*	*1,942*	*3,076*	*1,852*	*-*	*227*	*7,097*	*568*
2	Movement in risk levels	-843	-1,347	776	-	284	-1,130	-90
3	Model updates/changes	-	-	-	-	-	-	-
4	Methodology and policy	-	-	-	-	-	-	-
5	Acquisitions and disposals	-	-	-	-	-	-	-
6	Foreign exchange movements	-	-	-	-	-	-	-
7	Other	-	-	-	-	-	-	-
8a	*RWAs at the end of the reporting period (end of the day)*	*1,099*	*1,729*	*2,628*	*-*	*511*	*5,967*	*478*
8b	*Regulatory adjustment*	*4,322*	*5,631*	*1,310*	*-*	*-*	*11,263*	*901*
8	**RWAs as at 31 December 2020**	**5,421**	**7,360**	**3,938**	**-**	**511**	**17,230**	**1,379**

Market risks RWAs were up slightly compared to the third quarter and were in line with December 2019 and June 2020 figures. The most recent change was due to the increase in exposures to government bonds with medium/long-term maturities and in buy protection credit indices. The COVID-19 crisis continues to affect the current VaR measure, which is however decreasing compared to September (-548 million euro on average). The average increase in the IRC measure (+1,612 million euro on average) is linked to the exposure to sovereign debt in the first part of the quarter, which subsequently decreased, as is evident from the end period figures.

Institution-specific Countercyclical Capital Buffer

Below is the information relating to the "Countercyclical capital buffer", prepared based on the ratios applicable at 31 December 2020 and Delegated Regulation (EU) 2015/1555 of the Commission of 28 May 2015 which integrates regulation (EU) 575/2013 of the European Parliament and of the Council (so-called CRR) regarding the regulatory technical standards pertaining to the publication of information in relation to the compliance of the institutions' obligation to hold a countercyclical capital buffer pursuant to Article 440 of the CRR. As established by Article 140, paragraph 1, of directive 2013/36/EU (so-called CRD IV), the institution-specific countercyclical capital buffer is the weighted average of the countercyclical ratios which are applied in the countries where the relevant credit exposures of the institutions are located.
CRD IV establishes the obligation for the designated national authorities to activate an operational framework for the definition of the ratio of the countercyclical capital buffer (CCyB) starting from 1 January 2016. The ratio is subject to review on a quarterly basis. The European regulation was implemented in Italy with Bank of Italy circular 285, which contains suitable regulations concerning CCyB. Based on the analysis of the reference indicators, the Bank of Italy decided to set the countercyclical buffer ratio (for exposures towards Italian counterparties) at 0% also for the first three months of 2021.
The relevant credit exposures include all the classes of exposure other than those under Article 112, letters from a) to f), of regulation (EU) 575/2013. The following portfolios are excluded: exposures to central administrations or central banks; exposures to regional administrations or local authorities; exposures to public-sector entities; exposures to multilateral development banks; exposures to international organisations; exposures to institutions.

In reference to 31 December 2020:

- the countercyclical capital ratios at individual country level were set, with the methods summarised above, generally equal to 0%, with the exception of the following countries: Luxembourg (0.25%), Norway (1.00%), Hong Kong (1.00%), Czech Republic (0.50%), Slovakia (1.00%) and Bulgaria (0.50%);
- at consolidated level, Intesa Sanpaolo's specific countercyclical ratio amounts to 0.033%.

Amount of the Institution-specific Countercyclical Capital Buffer

(millions of euro)

Total risk exposure	347,072
Specific countercyclical ratio of the institution (%)	0.033%
Specific countercyclical capital buffer requirement of the institution	115

The table below shows the geographic distribution of the relevant credit exposures for the purpose of calculating the institution-specific countercyclical capital buffer as at 31 December 2020.

Geographic distribution of the relevant credit exposures for the purpose of calculating the countercyclical capital buffer *(Table 1 of 3)*

(millions of euro)

	GENERIC CREDIT EXPOSURES		EXPOSURE IN THE TRADING BOOK		EXPOSURE TO SECURITISATIONS		OWN FUNDS REQUIREMENTS				WEIGHTING FACTORS OF OWN FUNDS REQUIREMENTS	COUNTERCYCLICAL CAPITAL RATIO
	Exposure value according to the SA approach	Exposure value according to the IRB approach	Sum of the long and short position of the trading book	Exposure value in the trading book according to the internal models	Exposure value according to the SA approach	Exposure value according to the IRB approach	*Of which: Generic credit exposures*	*Of which: Exposures in the trading book*	*Of which: Exposures to securitisations*	**Total**		
ITALY	54,033	365,997	399	170	6,932	23,353	*14,783*	*71*	*723*	15,577	75.05	-
ALBANIA	495	13	-	-	-	-	*40*	-	-	40	0.19	-
ALGERIA	3	-	-	-	-	-	-	-	-	-	0.00	-
SAUDI ARABIA	41	419	-	-	-	-	*11*	-	-	11	0.05	-
ARGENTINA	8	3	-	-	-	-	-	-	-	-	0.00	-
ARMENIA	1	-	-	-	-	-	-	-	-	-	0.00	-
AUSTRALIA	75	620	-	-	-	-	*29*	-	-	29	0.14	-
AUSTRIA	87	882	-	2	-	-	*49*	-	-	49	0.23	-
AZERBAIJAN	-	116	-	-	-	-	*7*	-	-	7	0.03	-
BAHAMAS	20	129	-	-	-	-	*7*	-	-	7	0.03	-
BAILIWICK OF GUERNSEY	20	38	-	-	-	-	*5*	-	-	5	0.02	-
BAILIWICK OF JERSEY	188	50	-	-	-	-	*18*	-	-	18	0.09	-
BANGLADESH	5	-	-	-	-	-	-	-	-	-	0.00	-
BAHREIN	2	-	-	-	-	-	-	-	-	-	0.00	-
BELGIUM	904	529	-	2	-	-	*89*	-	-	89	0.43	-
BERMUDA	1	234	-	1	-	-	*17*	-	-	17	0.08	-
BELARUS	9	1	-	-	-	-	*1*	-	-	1	0.00	-
BOSNIA AND HERZEGOVINA	913	17	-	-	-	-	*73*	-	-	73	0.35	-
BRAZIL	217	524	-	-	-	-	*37*	*1*	-	38	0.18	-
BULGARIA	6	26	-	-	-	-	*2*	-	-	2	0.01	0.50
BURUNDI	6	-	-	-	-	-	-	-	-	-	0.00	-
CANADA	487	267	-	2	-	-	*25*	-	-	25	0.12	-
CAYMAN ISLANDS	205	446	2	-	39	-	*33*	*1*	*2*	36	0.17	-
CZECH REPUBLIC	261	964	-	-	-	-	*66*	-	-	66	0.32	0.50
CHILE	7	344	-	-	-	-	*11*	-	-	11	0.05	-
CHINA	331	748	-	-	-	-	*124*	-	-	124	0.60	-
CYPRUS	25	221	-	-	-	-	*11*	-	-	11	0.05	-
COLOMBIA	1	20	-	-	4	-	*1*	-	-	1	0.00	-
SOUTH KOREA	31	25	-	-	-	-	*2*	-	-	2	0.01	-
COSTA RICA	1	-	-	-	-	-	-	-	-	-	0.00	-
CROATIA	7,436	176	-	-	-	-	*462*	-	-	462	2.22	-
CUBA	87	-	-	-	-	-	*10*	-	-	10	0.05	-
CURACAO	-	15	-	-	-	-	-	-	-	-	0.00	-
DENMARK	35	71	-	7	-	-	*3*	-	-	3	0.01	-
DOMINICAN REPUBLIC	-	13	-	-	-	-	*1*	-	-	1	0.00	-
ECUADOR	2	35	-	-	-	-	*2*	-	-	2	0.01	-
EGYPT	2,385	118	-	-	-	-	*158*	-	-	158	0.76	-
UNITED ARAB EMIRATES	6	1,270	-	-	-	-	*32*	-	-	32	0.16	-
ESTONIA	32	-	-	-	-	-	*1*	-	-	1	0.00	-
ETHIOPIA	-	114	-	-	-	-	-	-	-	-	0.00	-
PHILIPPINES	-	1	-	-	-	-	-	-	-	-	0.00	-
FINLAND	96	224	1	9	5	-	*13*	-	-	13	0.06	-
FRANCE	1,286	3,156	17	200	-	-	*178*	*5*	-	183	0.88	-
GERMANY	819	2,715	18	246	4	-	*186*	*6*	*2*	194	0.93	-
GHANA	-	53	-	-	-	-	*3*	-	-	3	0.02	-

Geographic distribution of the relevant credit exposures for the purpose of calculating the countercyclical capital buffer *(Table 2 of 3)*

(millions of euro)

	GENERIC CREDIT EXPOSURES		EXPOSURE IN THE TRADING BOOK		EXPOSURE TO SECURITISATIONS		OWN FUNDS REQUIREMENTS				WEIGHTING FACTORS OF OWN FUNDS REQUIREMENTS	COUNTERCYCLICAL CAPITAL RATIO
	Exposure value according to the SA approach	Exposure value according to the IRB approach	Sum of the long and short position of the trading book	Exposure value in the trading book according to the internal models	Exposure value according to the SA approach	Exposure value according to the IRB approach	*Of which: Generic credit exposures*	*Of which: Exposures in the trading book*	*Of which: Exposures to securitisations*	**Total**		
JAPAN	86	881	-	3	-	-	*36*	-	-	36	0.17	-
GREECE	12	33	-	2	-	-	*2*	-	-	2	0.01	-
GUATEMALA	2	-	-	-	-	-	-	-	-	-	0.00	-
HONG KONG	105	443	-	4	-	-	*20*	*1*	-	21	0.10	1.00
INDIA	2	971	-	-	-	-	*31*	-	-	31	0.15	-
INDONESIA	37	101	-	-	-	-	*8*	-	-	8	0.04	-
IRELAND	194	323	350	2	948	-	*29*	*57*	*21*	107	0.51	-
ICELAND	1	17	-	-	-	-	*1*	-	-	1	0.00	-
ISLE OF MAN	1	-	-	-	-	-	-	-	-	-	0.00	-
ISRAEL	6	28	6	1	-	-	*2*	-	-	2	0.01	-
KAZAKHSTAN	9	8	-	-	-	-	*1*	-	-	1	0.00	-
KENYA	-	1	-	-	-	-	-	-	-	-	0.00	-
KUWAIT	1	184	-	-	-	-	*6*	-	-	6	0.03	-
LIECHTENSTEIN	1	-	-	-	-	-	-	-	-	-	0.00	-
LITHUANIA	11	-	-	-	-	-	-	-	-	-	0.00	-
LUXEMBOURG	2,862	4,228	2	94	1	-	*386*	*2*	-	388	1.87	0.25
MACAU	-	1	-	-	-	-	-	-	-	-	0.00	-
MACEDONIA	1	1	-	-	-	-	-	-	-	-	0.00	-
MALAYSIA	-	23	-	-	-	-	-	-	-	-	0.00	-
MALTA	2	25	-	-	-	-	*1*	-	-	1	0.01	-
MOROCCO	30	-	-	-	-	-	*2*	-	-	2	0.01	-
MARSHALL ISLANDS	16	153	-	-	-	-	*9*	-	-	9	0.05	-
MARTINIQUE	2	-	-	-	-	-	-	-	-	-	0.00	-
MAURITIUS	-	186	-	-	-	-	*7*	-	-	7	0.04	-
MEXICO	31	899	-	60	24	-	*36*	*1*	-	37	0.18	-
MOLDOVA	120	1	-	-	-	-	*6*	-	-	6	0.03	-
MONGOLIA	2	118	-	-	-	-	*17*	-	-	17	0.08	-
MONTENEGRO	5	-	-	-	-	-	-	-	-	-	0.00	-
NIGERIA	-	37	-	-	-	-	*1*	-	-	1	0.00	-
NORWAY	124	535	-	2	-	-	*17*	-	-	17	0.08	1.00
NEW CALEDONIA	1	-	-	-	-	-	-	-	-	-	0.00	-
NEW ZEALAND	2	55	-	1	-	-	*4*	-	-	4	0.02	-
OMAN	38	58	-	-	-	-	*7*	-	-	7	0.03	-
NETHERLANDS	747	2,520	73	219	200	-	*189*	*16*	*3*	208	1.00	-
PAKISTAN	2	-	-	-	-	-	-	-	-	-	0.00	-
PALESTINE	1	-	-	-	-	-	-	-	-	-	0.00	-
PANAMA	6	106	-	-	-	-	*7*	-	-	7	0.03	-
PERU	1	87	-	-	-	-	*2*	-	-	2	0.01	-
FRENCH POLYNESIA	1	-	-	-	-	-	-	-	-	-	0.00	-
POLAND	376	1,241	-	-	-	-	*62*	-	-	62	0.30	-
PUERTO RICO	-	5	-	-	-	-	*1*	-	-	1	0.00	-
PORTUGAL	15	232	28	12	6	-	*7*	*1*	-	8	0.04	-
PRINCIPALITY OF MONACO	2	26	-	-	-	-	*1*	-	-	1	0.00	-
QATAR	10	140	-	-	-	-	*5*	-	-	5	0.03	-
UNITED KINGDOM	2,041	4,321	7	393	56	-	*333*	*4*	*1*	338	1.62	-
ROMANIA	908	54	-	-	-	-	*57*	-	-	57	0.28	-
RUSSIA	727	4,782	-	-	-	-	*185*	-	-	185	0.89	-
SAN MARINO	6	81	-	-	-	-	*4*	-	-	4	0.02	-
SERBIA	4,044	204	9	-	-	-	*241*	*1*	-	242	1.16	-
SINGAPORE	2	647	-	1	-	-	*14*	-	-	14	0.07	-

Geographic distribution of the relevant credit exposures for the purpose of calculating the countercyclical capital buffer *(Table 3 of 3)*

(millions of euro)

	GENERIC CREDIT EXPOSURES		EXPOSURE IN THE TRADING BOOK		EXPOSURE TO SECURITISATIONS		OWN FUNDS REQUIREMENTS				WEIGHTING FACTORS OF OWN FUNDS REQUIREMENTS	COUNTERCYCLICAL CAPITAL RATIO
	Exposure value according to the SA approach	Exposure value according to the IRB approach	Sum of the long and short position of the trading book	Exposure value in the trading book according to the internal models	Exposure value according to the SA approach	Exposure value according to the IRB approach	*Of which: Generic credit exposures*	*Of which: Exposures in the trading book*	*Of which: Exposures to securitisations*	**Total**		
SLOVAKIA	2,863	13,136	71	-	-	-	*506*	*6*	-	512	2.46	1.00
SLOVENIA	1,115	891	-	-	-	-	*100*	-	-	100	0.48	-
SPAIN	279	3,617	26	60	431	-	*179*	*2*	*31*	212	1.02	-
UNITED STATES OF AMERICA	985	8,268	-	111	43	-	*343*	*7*	*4*	354	1.71	-
REPUBLIC OF SOUTH AFRICA	1	254	-	27	-	-	*17*	-	-	17	0.08	-
SWEDEN	210	264	-	22	-	-	*21*	*1*	-	22	0.11	-
SWITZERLAND	284	1,248	-	150	-	-	*61*	-	-	61	0.30	-
THAILAND	2	25	-	-	-	-	*2*	-	-	2	0.01	-
TAIWAN	2	-	-	-	-	-	-	-	-	-	0.00	-
TUNISIA	28	3	-	-	-	-	*2*	-	-	2	0.01	-
TURKEY	237	773	-	1	-	-	*112*	-	-	112	0.54	-
UKRAINE	115	37	-	-	-	-	*8*	-	-	8	0.04	-
HUNGARY	3,538	388	-	-	-	-	*213*	-	-	213	1.03	-
URUGUAY	9	102	-	-	-	-	*4*	-	-	4	0.02	-
VENEZUELA	1	3	-	-	-	-	-	-	-	-	0.00	-
BRITISH VIRGIN ISLANDS	-	107	-	-	-	-	*5*	-	-	5	0.02	-
VIETNAM	6	2	-	-	-	-	*1*	-	-	1	0.00	-
TOTAL	**92,835**	**433,468**	**1,009**	**1,804**	**8,693**	**23,353**	**19,801**	**183**	**787**	**20,771**	**100.00**	

Non-deducted participations in insurance undertakings (EU INS1 LG EBA 2016/11)

(millions of euro)

Holdings of own funds instruments of a financial sector entity where the institution has a significant investment not deducted from own funds (before risk-weighting)	5,825
TOTAL RWAs	**21,551**

As a "financial conglomerate" with a Parent Company of a banking group, Intesa Sanpaolo S.p.A., which controls the Intesa Sanpaolo Vita Insurance Group, on 9 September 2019 the Intesa Sanpaolo Group received permission from the ECB to calculate the Group's consolidated capital ratios, from the report as at 30 September 2019, using the Danish Compromise set out in Article 49 of Regulation (EU) 575/2013 (CRR), which allows banks that hold own funds instruments in insurance companies, subject to authorisation from their competent authorities, not to deduct those significant investments from Common Equity Tier 1 Capital (CET1) and weight them at 370% among RWA. The insurance own funds instruments originating from the UBI Group, for which no request has yet been made for extension of the Danish Compromise, have not been included for the application of this treatment. Between June and December 2020, there was an increase of around 2.8 billion euro in terms of RWAs, due to the rise in the value of insurance equity investments during the half-year. See Section 3 – Own Funds for details of the effects on Regulatory Capital as at 31 December 2020 from the application of the Danish Compromise.

In addition, based on specific instructions received from the ECB, the T2 subordinated instruments issued by the Group's insurance companies and held by the Parent Company (609 million euro as at 31 December 2020) have been subject to the same weighting, resulting in additional RWAs of around 2.3 billion euro. These latter figures are not included in the EU INS1 table figures.

THE CAPITAL ADEQUACY OF THE FINANCIAL CONGLOMERATE

The Intesa Sanpaolo Group operates as a financial conglomerate that engages in universal banking activity and insurance services through wholly-owned subsidiary insurance companies:

- Intesa Sanpaolo Vita;
- Intesa Sanpaolo Life;
- Intesa Sanpaolo Assicura;
- Fideuram Vita;
- Intesa Sanpaolo RBM Salute;
- BancAssurance Popolari.

In accordance with Article 49 (5) of the CRR, the own funds requirement and capital adequacy ratio of the financial conglomerate subject to insurance supervision, calculated in accordance with the applicable rules, are set out below.

(millions of euro)

	Amounts
A. Financial conglomerate amount	69,475
B. Capital requirements for banking elements	40,875
C. Solvency margins for insurance elements	3,948
D. Total capital requirements of the financial conglomerate (B+C)	**44,823**
E. Financial conglomerate surplus (deficit) (A-D)	**24,652**
F. Adequacy ratio of the financial conglomerate (A / D)	**155%**

In detail, as at 31 December 2020, the capital of the Intesa Sanpaolo financial conglomerate exceeded its capital requirements, defined as the conglomerate's capital needs, by 24,652 million euro. For the purpose of calculating the capital requirements of the banks, a Total Capital Ratio of 12.59% was considered, as taken from the outcomes of the Supervisory Review and Evaluation Process (SREP) for 2020.
The Solvency II framework of prudential supervision regulations, applicable to the entire European insurance segment, came into force on 1 January 2016. The new regulatory framework completely revised the calculation method for synthetic indicators to measure the solvency of insurance companies.
For 2020, the Group's insurance companies implemented all the new obligations required in that regard by the calendar for sending data reports to the Supervisory Authority IVASS. The main data included in these reports concerned Eligible Own Funds, the Solvency Capital Requirement (SCR) and the Solvency Ratio.
Intesa Sanpaolo Vita calculates the aggregate Solvency Ratio for the insurance companies as the Parent Company of the Insurance Group within the Intesa Sanpaolo Banking Group. Based on Art. 96 of Legislative Decree 209/2005 (the Insurers' Code), Intesa Sanpaolo Vita is also required to prepare the "consolidated aggregate" financial statements of the Insurance Group that includes Intesa Sanpaolo Assicura, Intesa Sanpaolo Life, as they are 100% controlled and Intesa Sanpaolo RBM Salute controlled at 50% + 1 share, Bancassurance Popolari and Fideuram Vita, because they are subject to unitary management in accordance with the insurers' code.
As at 31 December 2020, the Intesa Sanpaolo Vita Group had a regulatory solvency ratio of 221%, understood as the ratio of Group eligible own funds to the solvency capital requirement, both calculated according to Solvency II.
On 30 March 2020, the Ordinary Shareholders' Meeting of Intesa Sanpaolo Vita resolved to distribute a portion of other shareholders' equity reserves almost entirely to the Parent Company in the amount of around 504 million euro, which was paid out on the same date.

Comparison of own funds, capital ratios and leverage ratio with and without the application of transitional provisions for IFRS 9 (EU IFRS 9-FL LG EBA 2020/12)

(millions of euro)

	Available capital (amounts)	31.12.2020	30.09.2020	30.06.2020	31.03.2020	31.12.2019
1	Common Equity Tier 1 capital (CET1)	51,070	50,325	43,260	42,339	41,542
2	Common Equity Tier 1 capital (CET1) if IFRS 9 or analogous ECLs transitional arrangements had not been applied	48,941	48,193	41,128	40,212	38,952
3	Tier 1 capital	58,556	57,821	48,856	47,935	45,638
4	Tier 1 capital if IFRS 9 or analogous ECLs transitional arrangements had not been applied	56,427	55,689	46,724	45,808	43,048
5	Total capital	67,933	67,097	56,788	54,971	52,695
6	Total capital if IFRS 9 or analogous ECLs transitional arrangements had not been applied	66,773	65,838	55,506	53,711	50,953
	Risk-weighted assets (amounts)					
7	Total risk-weighted assets	347,072	342,251	295,973	297,119	298,524
8	Total risk-weighted assets if IFRS 9 or analogous ECLs transitional arrangements had not been applied	348,519	343,750	297,523	298,732	300,510
	Capital ratios					
9	Common Equity Tier 1 capital (as a percentage of the risk exposure amount)	14.7%	14.7%	14.6%	14.2%	13.9%
10	Common Equity Tier 1 capital (as a percentage of the risk exposure amount) if IFRS 9 or analogous ECLs transitional arrangements had not been applied	14.0%	14.0%	13.8%	13.5%	13.0%
11	Tier 1 capital (as a percentage of the risk exposure amount)	16.9%	16.9%	16.5%	16.1%	15.3%
12	Tier 1 capital (as a percentage of the risk exposure amount) if IFRS 9 or analogous ECLs transitional arrangements had not been applied	16.2%	16.2%	15.7%	15.3%	14.3%
13	Total capital (as a percentage of the risk exposure amount)	19.6%	19.6%	19.2%	18.5%	17.7%
14	Total capital (as a percentage of the risk exposure amount) if IFRS 9 or analogous ECLs transitional arrangements had not been applied	19.2%	19.2%	18.7%	18.0%	17.0%
	Leverage ratio					
15	Leverage ratio total exposure measure	814,646	881,054	745,133	722,405	682,781
16	Leverage ratio	7.2%	6.6%	6.6%	6.6%	6.7%
17	Leverage ratio if IFRS 9 or analogous ECLs transitional arrangements had not been applied	6.9%	6.3%	6.3%	6.4%	6.3%

As described in the chapter “Own Funds”, the first-time adoption of IFRS 9 and the adoption of the “static” approach during the transitional period (2018-2022), as permitted by Regulation (EU) 2017/2395, resulted in the effects on regulatory capital and prudential ratios as at 31 December 2020 (with and without applying the transitional provisions for IFRS 9) shown in the table above due to the following:

- the reduction in CET1, due to the first-time adoption of IFRS 9 (FTA), after eliminating the shortfall existing as at 31 December 2017 on IRB exposures;
- the increase in CET1 due to the re-inclusion of the gradually decreasing transitional component as a result of the adoption of the adjustment introduced by the afore-mentioned Regulation, aimed at mitigating the impact of FTA;
- a positive impact on CET1 resulting from the change in the classification of the financial assets in the new categories established by IFRS 9 and the consequent change in measurement metrics;
- a reduction in the CET1 ratio as a result of the increase in DTAs that rely on future profitability limited to the complementary portion of the phase-in percentages envisaged for the transitional period, as established by the related Q&As (2018_3784 and 2018_4113);
- the increase in the excess reserve, based on the provisions of the aforementioned Regulation, may be added to the Tier 2 Capital, up to the amount of 0.6% of IRB RWA, solely for the part in excess of the amount re-included in CET1 as a result of the adoption of said transitional adjustment;
- the reduction of the risk-weighted assets (RWA) on standard exposures which, as a result of the increase in the provisions linked to the first-time adoption of IFRS 9, reduced the risk exposure (EAD);
- the increase in risk-weighted assets (RWA) on standard exposures due to the application, under said provisions, of the scaling factor set out in Regulation (EU) 2017/2395.

From 30 September 2019, the deduction of DTAs and investments in companies in the financial sector described in the section on Own Funds ceased to be applied following the application of the Danish Compromise (as already mentioned, this does not include the insurance own funds instruments originating from the UBI Group, for which no request has yet been made for extension of the Danish Compromise). As a consequence, the difference between the amount of the 250% risk-

weighted DTAs in the IFRS 9 transitional approach and those re-determined on the assumption IFRS 9 had not been applied (fully-loaded IFRS 9), as described in detail in the above-mentioned section, results in an increase in risk-weighted exposures for the latter, which will cease at the end of the transitional period (2022).

The methods for determining the measurement of the overall exposure of the leverage ratio during the transitional period, following a Q&A published in 2019, were extended to exposures subject to internal models (IRB) for the purposes of credit risk, thus adopting the same scaling factor already applied to standard exposures in line with the aforementioned regulation.

Section 5 - Liquidity Risk

LIQUIDITY RISK

Liquidity risk is defined as the risk that the Bank may not be able to meet its payment obligations due to the inability to obtain funds on the market (funding liquidity risk) or liquidate its assets (market liquidity risk).

The arrangement of a suitable control and management system for that specific risk has a fundamental role in maintaining stability, not only at the level of each individual bank, but also of the market as a whole, given that imbalances within a single financial institution may have systemic repercussions. Such a system must be integrated into the overall risk management system and provide for incisive controls consistent with developments in the context of reference.

Intesa Sanpaolo's internal control and management system for liquidity risk is implemented within the Group Risk Appetite Framework and in compliance with the tolerance thresholds for liquidity risk approved in the system, which establish that the Group must maintain an adequate liquidity position in order to cope with periods of strain, including prolonged periods, on the various funding supply markets, also by establishing adequate liquidity reserves consisting of marketable securities and refinancing at Central Banks. To this end, a balance needs to be maintained between incoming and outgoing funds, both in the short and medium-long term. This goal is implemented by the Group Liquidity Risk Management Guidelines approved by the Corporate Bodies of Intesa Sanpaolo, in implementation of the applicable regulatory provisions.

The provisions on liquidity – introduced by the European Union in June 2013 and subsequently updated – establish that banks are required to comply with the short-term Liquidity Coverage Ratio (LCR), as set out in Art. 38 of Delegated Regulation (EU) 2015/61 and related supplements/amendments (minimum level of 100% from 1 January 2018). The entry into force of the Net Stable Funding Ratio (NSFR = 100%) is, instead, planned to start in June 2021, following final approval and publication in the Official Journal in May 2019 of the package of banking reforms containing Directive (EU) 2019/878 (CRD V) and new Regulation (EU) 2019/876 (CRR2).

The Intesa Sanpaolo Group Liquidity Risk Management Guidelines, which already referred to Bank of Italy Circulars 263 and 285, and Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR), have reflected all of the related regulatory provisions step-by-step, adjusting the composition of the liquid assets eligible for liquidity reserves and the definition of the 30-day liquidity flows valid for the calculation of the LCR. With respect to structural liquidity, the most recent regulatory provisions issued concerning the Net Stable Funding Ratio (NSFR) have been adopted, in view of the upcoming entry into force of the European regulations mentioned above.

The "Group Liquidity Risk Management Guidelines" approved by Intesa Sanpaolo's Corporate Bodies illustrate the tasks of the various corporate functions, the rules and the set of control and management processes aimed at ensuring prudent monitoring of liquidity risk, thereby preventing the emergence of crisis situations. To this end, they include procedures for identifying risk factors, measuring risk exposure and verifying observance of limits, conducting stress tests, identifying appropriate risk mitigation initiatives, drawing up emergency plans and submitting informational reports to company bodies.

The key principles guiding the internal control and management system for liquidity risk defined by those Guidelines are as follows:

- the existence of a liquidity management policy approved by senior management and clearly disseminated throughout the Bank;
- the existence of an operating structure that works within set limits and of a control structure that is independent from the operating structure;
- the constant availability of adequate liquidity reserves in relation to the pre-determined liquidity risk tolerance threshold;
- the assessment of the impact of various scenarios, including stress testing scenarios, on the cash inflows and outflows over time and the quantitative and qualitative adequacy of liquidity reserves;
- the adoption of an internal fund transfer pricing system that accurately incorporates the cost/benefit of liquidity, on the basis of the Intesa Sanpaolo Group's funding conditions.
- liquidity management in crisis situations that takes into account the guidelines on the governance of crisis management processes within the Recovery Plan and the Resolution Plan.

The "Group Liquidity Risk Management Guidelines" set out the task assigned to the Corporate Bodies and allocate several important responsibilities to senior management, including approving measurement indicators, defining the main assumptions underlying the stress scenarios composing of early warning thresholds used to activate emergency plans.

In order to pursue an integrated, consistent risk management policy, strategic decisions regarding liquidity risk monitoring and management at the Group level fall to the Parent Company's Corporate Bodies. From this standpoint, the Parent Company performs its functions of monitoring and managing liquidity not only in reference to its own organisation, but also by assessing the Group's overall transactions and the liquidity risk to which it is exposed.

The corporate functions of the Parent Company responsible for ensuring the correct application of the Guidelines and the sufficiency of the Group's liquidity position are the Group Treasury and Finance Department and the Group Planning and Control Department, responsible, within the Chief Financial Officer (CFO) Area, for liquidity management, and the Financial and Market Risks Head Office Department, which is directly responsible, within the Chief Risk Officer (CRO) Area, for measuring liquidity risk on a consolidated basis.

The Group's liquidity is managed by the aforesaid structures of the CFO area through continuous liaison with the Business Units, within the framework of the relevant business plans drawn up in accordance with the following guidelines:

- constant attention to the level of customer loyalty, aimed at maintaining a high stock of stable deposits;
- monitoring of the deposit-lending gap of the Business Units, with respect to plan and budget targets;
- balanced use of the institutional market, with particular attention to diversification of segments and instruments;
- selective use of refinancing operations by Central Banks.

The Financial and Market Risks Head Office Department is directly responsible for level two controls and, as an active member of the Managerial Committees, it performs a primary role in the management and dissemination of information on liquidity risk, helping improve the Group's overall awareness of the existing position. In particular, it ensures the measurement of the Group's current and future exposure to liquidity risks under normal and stressed conditions, verifying compliance with the limits and, if those limits are exceeded, implementing the reporting to the competent Corporate Bodies and monitoring the agreed correction actions in the event of any excesses.

The Chief Audit Officer assesses the functioning of the overall structure of the control system monitoring the process for measuring, managing and controlling the Group's exposure to liquidity risk and verifies the adequacy and compliance of the process with the requirements established by the regulations. The results of the controls carried out are submitted to the Corporate Bodies, at least once a year.

The liquidity risk measurement metrics and mitigation tools are formalised by the Group Liquidity Risk Management Guidelines which establish the methodology used for both the short-term and structural liquidity indicators.

The short-term liquidity is aimed at providing an adequate, balanced level of cash inflows and outflows the timing of which is certain or estimated to fall within a period of 12 months, while ensuring a sufficient liquidity buffer, available for use as the main mitigation tool for liquidity risk. To that end, and in keeping with the liquidity risk appetite, the system of limits consists of specific short-term indicators, both of a regulatory nature within a time horizon of 30 calendar days (Liquidity Coverage Ratio - LCR) and internally defined (Survival Period indicators).

The LCR indicator is aimed at strengthening the short-term liquidity risk profile, ensuring that sufficient unencumbered high-quality liquid assets (HQLA) are retained that can be converted easily and immediately into cash on the private markets to satisfy the short-term liquidity requirements (30 days) in an acute liquidity stress scenario. To this end, the Liquidity Coverage Ratio measures the ratio between: (i) the stock of HQLA and (ii) the total net cash outflows calculated according to the scenario parameters defined by Delegated Regulation (EU) 2015/61.

The Survival Period is an internal indicator designed to measure the first day on which the Net Liquidity Position (NLP) (calculated as the difference between available liquidity reserves and net outflows) becomes negative, i.e. when additional liquidity is no longer available to cover simulated net outflows. To this end, two different scenario hypotheses are considered, baseline and stressed, designed to measure, respectively: (i) the Group's independence from interbank funding on the financial markets and (ii) the survival period in the event of further market and idiosyncratic tensions, of medium-high severity, managed without envisaging restrictions on credit activity involving customers. For the Survival Period indicator under stress conditions it's established that a minimum survival period must be maintained with the purpose of determining an overall level of reserves covering greater cash outflows during a period of time that is adequate to implement the required operating measures to restore the Group into balanced conditions.

The aim of the Intesa Sanpaolo Group's structural Liquidity Policy is to adopt the structural requirement provided for by the regulatory provisions - the Net Stable Funding Ratio (NSFR). This indicator is aimed at promoting the increased use of stable funding, to prevent medium/long-term operations from giving rise to excessive imbalances to be financed in the short term. To this end, it sets a minimum "acceptable" amount of funding exceeding one year in relation to the needs originating from the characteristics of liquidity and residual duration of assets and off-balance sheet exposures. In addition, the internal policy on structural liquidity also includes early warning indicators for maturities of more than 1 year, with particular attention to long-term gaps (> 5 years).

The Group Liquidity Risk Management Guidelines also establish methods for management of a potential liquidity crisis, defined as a situation of difficulty or inability of the Bank to meet its cash obligations falling due, without implementing procedures and/or employing instruments that, due to their intensity or manner of use, do not qualify as ordinary administration. By setting itself the objectives of safeguarding the Group's asset value and also guaranteeing the continuity of operations under conditions of extreme liquidity emergency, the Contingency Liquidity Plan ensures the identification of the early warning signals and their ongoing monitoring, the definition of procedures to be implemented in situations of liquidity stress, also indicating the immediate lines of action, and the intervention measures for the resolution of emergencies. The early warning indexes, aimed at spotting the signs of a potential liquidity strain, both systematic and specific, are monitored

with daily frequency by the Financial and Market Risks Head Office Department. Within this framework, the Group Treasury and Finance Department was officially entrusted with drawing up the Contingency Funding Plan (CFP), which contains the various lines of actions that can be activated in order to face potential stress situations, specifying the extent of the mitigating effects attainable in the short-term period.

Impacts from the COVID-19 pandemic

The health emergency generated by the COVID-19 pandemic has laid out unique challenges also at the level of liquidity risk, and since the outbreak of the emergency the Group has preventively adopted all necessary control and management measures to mitigate the potential worsening of the Bank's liquidity conditions.
Throughout 2020, the Group's liquidity position – supported by suitable high-quality liquid assets (HQLA) and the significant contribution from retail stable funding – remained widely above the risk limits set out in the current Group Liquidity Policy: both regulatory indicators, LCR and NSFR, which also benefited from the positive contribution made by the UBI Group from the end of August, were considerably greater thanthe regulatory requirements. During 2020, the Intesa Sanpaolo Group's Liquidity Coverage Ratio (LCR), measured according to Delegated Regulation (EU) 2015/61, also consolidating the UBI Group from August, amounted to an average of [9]159.1%. The NSFR also remained significantly higher than 100%, supported by a solid base of stable deposits from customers, adequate wholesale medium/long-term securities funding and the new TLTRO funding from the ECB. The Group's NSFR is also significantly higher than 100%, even excluding the positive contribution from that TLTRO funding.

At the end of December 2020, the exact value of total unencumbered HQLA reserves at the various Group Treasuries, including the UBI Group, totalled 170 billion euro and was more than 47% comprised of cash and deposits held with Central Banks. Adding the other marketable reserves and/or eligible Central Bank reserves, including retained self-securitisations, the Group's unencumbered liquidity reserves amounted to a total of 195 billion euro.

(millions of euro)

	Unencumbered (net of haircut)	
	31.12.2020 (*)	31.12.2019
HQLA Liquidity Reserves	**170,264**	**95,762**
Cash and Deposits held with Central Banks (HQLA)	80,698	22,326
Highly liquid securities (HQLA)	89,566	73,436
Other eligible and/or marketable reserves	**24,403**	**22,594**
Total Group's Liquidity Buffer	**194,667**	**118,356**

(*) The figures include the UBI Group's contribution

Considering the high amounts of unencumbered liquidity reserves (liquid or eligible), also the stress tests, in a combined scenario of market and specific crises (with significant loss in customer deposits), yielded results in excess of the target threshold for the Intesa Sanpaolo Group, with a liquidity surplus capable of meeting extraordinary cash outflows for a period of more than 3 months.

Adequate and timely information regarding the development of market conditions and the position of the Bank and/or Group was regularly provided to the corporate bodies and internal committees in order to ensure full awareness and manageability of the risk factors. This report includes an assessment of the liquidity risk exposure, also determined based on the adverse scenarios. The Board of Directors of Intesa Sanpaolo is regularly involved in defining the strategy for maintaining an adequate liquidity position at the level of the entire Group.

The corporate assessment on the adequacy of Intesa Sanpaolo's position is reported in the ILAAP (Internal Liquidity Adequacy Assessment Process), which also includes the Group's Funding Plan. Within the annual approval process for this report by the Governing Bodies of Intesa Sanpaolo, the Liquidity Adequacy Statement (LAS) of the Members of the Board of Directors, which also presents the main findings from the self-assessment of the adequacy of the liquidity position, taking into account the results and values shown by the main indicators, confirms that the management of the liquidity position is considered to be adequate and deeply rooted in the Group's culture and business processes. It also notes, including from a prospective standpoint, that the current system of rules and procedures appears adequate to ensure a prompt and effective reaction should the risks and challenges actually materialise in severe and adverse stress scenarios.

[9] The figure presented refers to the simple average of the last 12 monthly observations, as per the EBA guidelines, "Guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) 575/2013", June 2017.

The table below contains the quantitative information on the Liquidity Coverage Ratio (LCR) of the Intesa Sanpaolo Group, measured in accordance with the EU regulations and subject to periodic reporting to the competent Supervisory Authority. The figures shown refer to the simple average of the last 12 months of monthly observations.

Liquidity Coverage Ratio (LCR) disclosure template and additional disclosure (EU LIQ1 EBA GL 2017/01)

(millions of euro)

SCOPE OF CONSOLIDATION		2020 TOTAL UNWEIGHTED VALUE (AVERAGE)				2020 TOTAL WEIGHTED VALUE (AVERAGE)			
	Quarter ending	December 31st	September 30th	June 30th	March 31st	December 31st	September 30th	June 30th	March 31st
	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
HIGH-QUALITY LIQUIDIT ASSETS									
1	**Total high-quality liquid assets (HQLA) (a)**					**123,984**	**108,645**	**98,980**	**96,818**
CASH-OUTFLOWS									
2	**Retail deposits and deposits from small business customers, of which:**	**248,185**	**227,253**	**212,544**	**207,032**	**17,451**	**16,020**	**15,032**	**14,634**
3	*Stable deposits*	*178,534*	*163,195*	*152,165*	*148,392*	*8,927*	*8,160*	*7,608*	*7,420*
4	*Less stable deposits*	*69,651*	*64,058*	*60,379*	*58,640*	*8,524*	*7,860*	*7,424*	*7,214*
5	**Unsecured wholesale funding**	**125,637**	**114,918**	**107,675**	**104,202**	**55,535**	**51,565**	**49,576**	**48,871**
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	*40,384*	*38,418*	*36,578*	*35,248*	*10,094*	*9,602*	*9,142*	*8,809*
7	*Non operational deposits (all counterparties)*	*82,542*	*73,815*	*67,927*	*65,659*	*42,730*	*39,278*	*37,264*	*36,767*
8	*Unsecured debt*	*2,711*	*2,685*	*3,170*	*3,295*	*2,711*	*2,685*	*3,170*	*3,295*
9	**Secured wholesale funding**					**1,352**	**1,432**	**1,557**	**1,562**
10	**Additional requirements**	**66,413**	**65,123**	**63,640**	**62,138**	**17,580**	**17,384**	**16,816**	**15,928**
11	*Outflows related to derivative exposure and other collateral requirements*	*4,983*	*4,801*	*4,430*	*3,834*	*4,768*	*4,555*	*4,215*	*3,577*
12	*Outflos related to loss of funding on debt products*	-	-	-	-	-	-	-	-
13	*Credit and liquidity facilities*	*61,430*	*60,322*	*59,210*	*58,304*	*12,812*	*12,829*	*12,601*	*12,351*
14	**Other contractual funding obligations**	**2,827**	**2,155**	**2,273**	**1,767**	**2,824**	**2,153**	**2,270**	**1,764**
15	**Other contingent funding obligations**	**108,323**	**98,997**	**92,915**	**95,920**	**4,627**	**4,340**	**4,143**	**3,906**
16	**TOTAL CASH OUTFLOWS**					**99,369**	**92,894**	**89,394**	**86,665**
CASH-INFLOWS									
17	Secured lending (e.g. reverse repos)	24,018	28,701	32,206	36,311	770	925	1,116	1,231
18	Inflows from fully performing exposures	21,192	21,532	21,545	20,996	13,595	13,783	13,742	13,322
19	Other cash inflows	22,122	21,850	21,876	22,075	8,137	8,378	8,619	8,571
19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restriction or which are denominated in non-convertible currencies)					-	-	-	-
19b	(Excess inflows from related specialised credit institution)					-	-	-	-
20	**TOTAL CASH INFLOWS**	**67,332**	**72,083**	**75,627**	**79,382**	**22,502**	**23,086**	**23,477**	**23,124**
20a	*Fully exempt inflows*	-	-	-	-	-	-	-	-
20b	*Inflows subject to 90% cap*	-	-	-	-	-	-	-	-
20c	*Inflows subject to 75% cap*	*67,333*	*72,083*	*75,627*	*79,382*	*22,501*	*23,086*	*23,477*	*23,124*
21	**LIQUIDITY BUFFER**					**123,984**	**108,645**	**98,980**	**96,818**
22	**TOTAL NET CASH OUTFLOWS**					**76,867**	**69,808**	**65,917**	**63,541**
23	**LIQUIDITY COVERAGE RATIO (%)**					**159.1%**	**154.2%**	**150.0%**	**152.8%**

(a) Liquidity reserves held by subsidiaries based in a third country subject to restrictions to assets transferability are recognised only for the portion intended to cover net cash outflows in that third country. All excess amounts are therefore excluded from the Group's consolidated LCR.

Group liquidity management model and interaction between affiliates

Integrated management is a key factor in the successful governance of liquidity risk. The existence of integrated liquidity management models is also recognised by the current European legislation, which provides the possibility of being exempted from individual compliance with the LCR requirement.

In this context, and in view of the centralised liquidity management models adopted by the Intesa Sanpaolo Group, the ECB has accepted the application for exemption from the individual compliance with the LCR requirement and the related reporting obligations (see Part 6, CRR) for the Group’s main Italian subsidiaries.

All the international subsidiary banks of the Group comply with the individual LCR requirements, as they were above the minimum regulatory amounts required for all of 2020. To this end, and based on the particular characteristics of each international jurisdiction, adequate liquid reserves are maintained that are readily available at local level. For affiliates resident in a third country subject to restrictions on the free transferability of funds, the calculation of the Group LCR can only include the reserves held there to meet liquidity outflows in that third country (accordingly, all surplus amounts are excluded from the consolidation).

Currency mismatch in the Liquidity Coverage Ratio

The Intesa Sanpaolo Group operates primarily in euro. The EU regulations require the monitoring and reporting of the “LCR in foreign currency” when the aggregate liabilities held in a foreign currency are “material”, i.e. equal to or greater than 5% of the total liabilities held by the institution.
As at 31 December 2020, the US dollar (USD) was confirmed as material currency at consolidated level for the Group. Intesa Sanpaolo has an LCR position in USD of over 100% and has ample highly liquid US dollar (EHQLA) liquidity reserves, mainly consisting of unrestricted deposits held at the Federal Reserve.

Concentration of funding

Intesa Sanpaolo’s funding strategy is based on maintaining diversity in terms of customers, products, maturities and currencies. Intesa Sanpaolo’s main sources of funding consist of: (i) deposits from the domestic Retail and Corporate market, which represent the stable portion of funding, (ii) short-term funding on wholesale markets, largely consisting of repurchase agreements and CD/CP funding, and (iii) medium/long-term funding, mainly composed of own issues (covered bonds/ABS and other senior debt securities in the euro and US markets, in addition to subordinated securities) and refinancing operations with the Eurosystem (TLTRO II). The Group Liquidity Risk Management Guidelines require the regular monitoring of the concentration analyses for the funding (by counterparty/product) and for the liquidity reserves (by issuer/counterparty).

Derivatives transactions and potential collateral calls

Intesa Sanpaolo enters into derivatives contracts with central counterparties and third parties (OTC) covering various risk factors, arising, for example, from changes in interest rates, exchange rates, securities prices, commodity prices, etc. As market conditions change, these risk factors generate an impact on the Group’s liquidity, affecting potential future exposures in derivatives, for which the provision of collateral in the form of cash or other liquid collateral is typically required. The quantification of the potential liquidity absorption, generated by the need for additional collateral in the event of adverse market movements, is measured both through historical analysis of the net collateral paid (Historical Look Back Approach), and by using advanced internal counterparty risk models. These figures are calculated from the potential outflows of the various liquidity indicators, contributing to the determination of the minimum Liquidity Buffer to be held to cover the estimated outflows.

Other liquidity risks not captured in the LCR calculation, but relevant to the Group’s liquidity profile

Participation in payment, settlement and clearing systems requires the development of appropriate strategies and procedures for the control of intraday liquidity risk.
Intraday liquidity risk is the risk of not having sufficient funds to meet payment obligations by the deadlines set, within the business day, in the various systems referred to above (with potentially significant negative consequences also at a systemic level).
Intesa Sanpaolo actively manages its intraday liquidity positions to ensure that its settlement obligations are met in a timely manner, thereby contributing to the smooth operation of the payment circuits across the entire system. Intraday liquidity management necessarily involves careful and continuous monitoring of intraday cash flows exchanged at the various settlement systems used by the Group. To cover intraday liquidity risk, at the Parent Company and at the other Banks/Group companies that participate directly in the payment systems, a minimum portfolio of eligible assets is held in a central bank as an immediately available reserve (in euro or in foreign currency). The control functions also monitor specific indicators of the availability of reserves at the start of the day and their ability to cover any unexpected peaks in collateral, also in relation to specific cases of stress. In particular, the Intraday liquidity usage ratio, which measures the relationship between the maximum cumulative net outflows and the amount of available reserves at the ECB at the start of the day (see BCBS - “Monitoring tools for intraday liquidity management”, April 2013), is extremely low, confirming the careful management of intraday liquidity risk.

Section 6 - Credit risk: general disclosure

Qualitative disclosure

Risk management strategies and processes

The Group's strategies, Risk Appetite Framework, and Powers and Rules for credit granting and management are aimed at:

- achieving sustainable growth of lending operations consistent with the risk appetite and value creation;
- diversifying the portfolio, limiting the concentration of exposures on single counterparties/groups, single economic sectors or geographical areas;
- efficiently selecting economic groups and individual borrowers through a thorough analysis of their creditworthiness aimed at limiting the risk of insolvency;
- privileging lending business aimed at supporting the real economy and production system;
- constantly monitoring relationships, through the use of both IT procedures and systematic surveillance of positions, with the aim of detecting any symptoms of imbalance and promoting corrective measures geared towards preventing possible deterioration of the relationship in a timely manner.

Constant monitoring of the quality of the loan portfolio is also pursued through specific operating checks for all the phases of loan management.

It is important to note that the 2018-2021 Business Plan includes – among other things – the ambition to excel in asset quality in which the effective management of non-performing loans is one of the first priorities. The operations carried out during the year to reduce the Group's NPLs, also in light of the integration with UBI which began in August 2020, include several extraordinary de-risking operations. NPLs at year-end 2020 did not include portfolios classified as ready to be sold, accounted under non-current assets held for sale and discontinued operations. Excluding the contribution of UBI Banca, these were equal to around 3.2 billion euro gross and 0.5 billion euro net; including the contribution, to around 5.4 billion euro gross post PPA (of which 1.5 billion euro related to the going concern to be sold to BPER Banca) and 2.1 billion euro net (of which 0.9 billion euro related to the going concern to be sold to BPER Banca).

The main contents of these strategies and the results for the year are described in the "2018-2021 Business Plan" section of the Report on operations in the 2020 Annual Report.

Structure and organisation of the associated risk management function

The coverage and governance of credit ensured by the corporate bodies is reflected in the current organisational structure, which identifies areas of central responsibility attributable to:

- Chief Lending Officer Governance Area;
- Chief Risk Officer Governance Area;
- Chief Financial Officer Governance Area;

They ensure that risk control activities are managed and implemented, with an appropriate level of segregation, in addition to the establishment of the supporting processes and applications.

The Chief Lending Officer Governance Area, with the aid of its structures (BdT Lending Head Office Department, CIB Lending Head Office Department, ISB Credit Head Office Department, Credit Governance Head Office Department, Credit Value Control Head Office Department and NPE Head Office Department):

- makes material lending decisions, directly or submitting them to the relevant bodies in relation to the assumption and management of the Group's credit risks, authorising them directly within the scope of their responsibility, including through compliance opinions;
- ensures, for its area of responsibility, the proactive management of credit and guarantees the management and the monitoring of the Group's non-performing and bad loans kept within the Group's internal management;
- conceives and manages transactions for the sale of individual NPE positions or portfolios, credit exposures and other assets within scope, with the collaboration of other competent functions;
- performs monitoring and control on outsourced activities, including the monitoring of the performance KPIs of outsourcers, directly making decisions, or submitting them to the Competent Bodies, regarding proposals exceeding the powers delegated to the Outsourcers;
- contributes to the process of formulating the proposal of the Credit Strategies in the analysis of the impacts on the granting of loans and their definition in relation to the relevant credit management variables, without prejudice to the finalisation powers within the remit of the Chief Financial Officer Governance Area;
- coordinates the implementation of Credit Policies by the relevant Group business units, also in the various corporate contexts;
- analyses the evolution of the cost of credit within the Group, also taking into account the application of the aforesaid Credit Strategies;
- allocates and validates the ratings to the relevant positions, also providing support in the definition of the rating allocation processes and tools;
- defines the reference regulations on credit matters, the requirements for the development of credit instruments and contributes to the formulation of the proposals for the assignment of credit granting and management powers, without prejudice to the finalisation powers within the remit of the Chief Risk Officer Governance Area;

- promotes initiatives aimed at disseminating and developing a credit culture;
- ensures, consistently with the guidelines of the Chief Risk Officer Governance Area and in compliance with the Credit Policies, the first level systematic supervision of the relevant loan portfolio, identifying phenomena referring to specific credit aggregates characterised by high levels of anomalies for which to activate the appropriate risk mitigation measures.

The Chief Risk Officer Governance Area is responsible for adapting the Risk Appetite Framework for the management of credit risk, in accordance with company strategies and objectives, as well as for measuring and controlling the Group's risk exposures. Specifically, the Chief Risk Officer Governance Area:

- establishes the metrics for the measurement of credit risk - also with regard to the collective measurement of performing loans and the measurement of non-performing loans on a statistical basis;
- provides risk-adjusted pricing models and guidance on Expected Loss, Economic Capital (ECAP) and RWAs;
- monitors the absorption of capital relating to credit risk, supporting the Chief Financial Officer Governance Area in the active management of capital;
- makes proposals for the assignment of the Credit Granting and Management Powers;
- validates internal risk measurement systems;
- governs model risk;
- performs level 2 controls for credit risk.

The activities are performed directly by the Chief Risk Officer Governance Area for both the Parent Company and the main subsidiaries, according to a service contract.

With regard to the credit management policies, the Chief Financial Officer Governance Area:

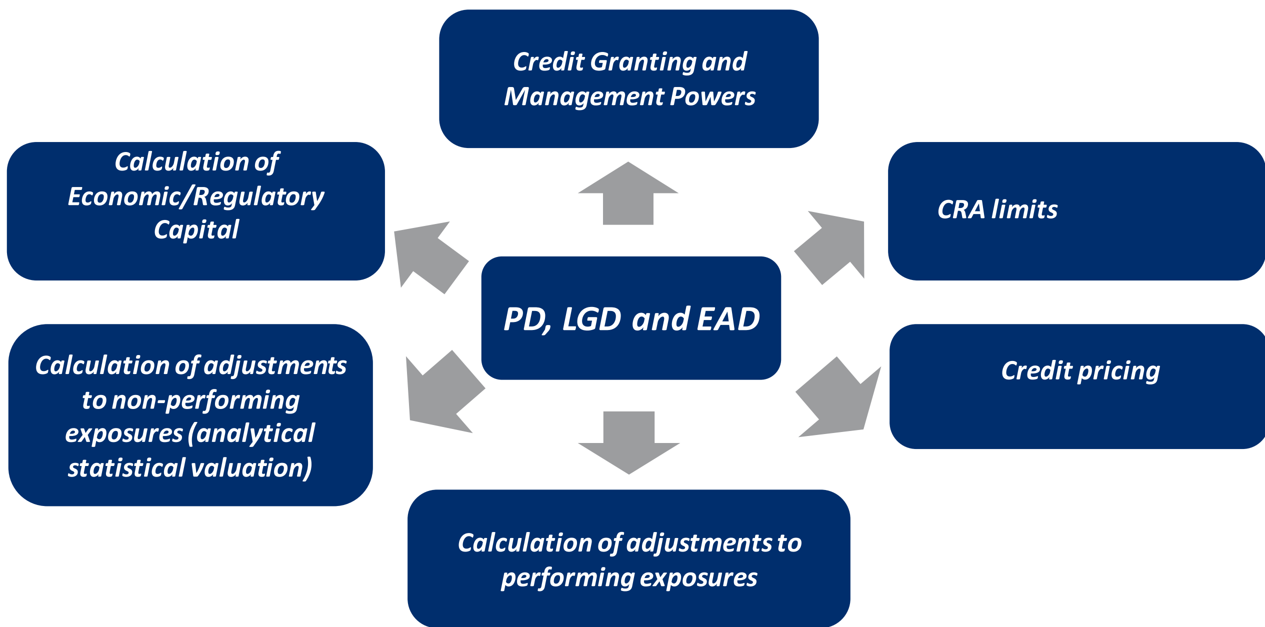
- assists the Corporate Bodies in defining, in accordance with the Group corporate strategies and objectives, the guidelines and policies on administration, planning and management control, studies and research, active management of the loan portfolio, relations with investors and rating agencies, and social and environmental responsibility;
- oversees Credit Portfolio Management at Group level, supporting the Divisions in the active management of credit risk, with the aim of improving the risk-return profile of the loan portfolio in order to create value for shareholders, through targeted credit strategies (including a specific incentive and disincentive mechanism) and participation in market operations on performing loans (including those being purchased) and non-performing loan portfolios;
- oversees the coordination of the “Group NPL Plan Control Room”, a managerial body with consulting, monitoring and guidance functions, established to ensure that the strategic objectives of the Group’s NPL Plan, approved annually by the Parent Company’s Board of Directors, are achieved while in compliance with the performance targets, solidity of the capital ratios and creation of value for the Group.

The Chief IT, Digital and Innovation Officer establishes the model and oversees the Group’s Data Governance and Data Quality system, ensuring its dissemination and implementation and coordinating the activities of the parties involved.

Lastly, as is the case for all the risk areas and above all for credit risk, the Chief Audit Officer performs internal audits aimed at identifying breaches of the procedures and regulations and periodically assessing the completeness, adequacy, functioning (in terms of efficiency and effectiveness) and reliability of the internal control system and the ICT system (ICT audit), at preset intervals according to the nature and extent of the risks.

Scope of application and characteristics of the risk measurement and reporting system

Intesa Sanpaolo, as the Parent Company, has set out codes of conduct in relation to credit risk acceptance, in order to prevent excessive concentration of exposures, limit potential losses in adverse scenarios, and maintain credit quality in line with the objectives of capital and financial stability.
Expected Loss and Risk Weighted Assets are fundamental elements for the management, measurement and control of credit risk. These measures incorporate the effects of the exposure size (Exposure at Default - EAD), the relative riskiness of the customer (Probability of Default - PD), the loss estimate where insolvency conditions exist - taking into account the guarantees that mitigate the assumption of risk related to the loan (Loss Given Default - LGD) - and the duration of the exposure (maturity), as detailed in paragraph 2.3.
The components that contribute to the determination of the Risk Weighted Assets are the key elements for the determination of the levels of the Credit Granting Powers, the limits of the Credit Risk Appetite (CRA), the credit pricing, the calculation of the adjustments on performing exposures and the analytical-statistical adjustments on non-performing exposures, as well as the calculation of the economic and regulatory capital.



The Credit Risk Appetite is aimed at optimising the risk/return profile of the assets. The "Rules on Credit Risk Appetite" define the methods for applying the CRA and the methods for calculating the CRA colour class, with associated exposure limits, in order to pursue a growth in lending consistent with the risk appetite defined for the Group. Following the acquisition of the UBI Banca Group, in order to ensure homogeneous treatment of customers, guarantee current operations and consistent oversight of Group risks, it was necessary to extend to the scope of UBI Banca and IW Bank the Credit Risk Appetite (CRA) framework of Intesa Sanpaolo. Thus, specific limits were defined, dedicated to the operations of UBI Banca and IW Bank, as well as the governance for managing breaches of the limits in line with that established at Intesa Sanpaolo.
The objective of the calculation of the pricing of transactions is to define the suitability of the economic conditions based on the value generation with respect to the expressed riskiness and all the components that contribute to the calculation of the value, also including the costs allocated to the structures.
The capital at risk is defined as the maximum "unexpected" loss that the Group may incur with particular confidence levels. The calculation is made with reference to the current status of the portfolio and on a dynamic basis, by determining the projected level, based on both the forecast macroeconomic scenario and on stress scenarios. Risk capital is a fundamental element in the assessment of the Group's capital adequacy and is calculated within the ICAAP process both with regard to the regulatory parameters and from a management perspective.
The levels of Powers set on terms of RWA delimit the decision-making power in the granting phase, specifying the authorised professional profiles and the decision-making procedures for the loans for the individual counterparties. In particular, where the granting of loans by the Group's subsidiaries exceeds certain thresholds, a request for a "Compliance Opinion" is made to the competent bodies of the Parent Company.
The credit granting phase is also regulated by metrics that are complementary to the RWAs, which define coordination mechanisms and support tools for the ongoing exercise of guidance, coordination and control responsibilities, in implementation of the corporate governance provisions. In particular, the company rules include the Granting Rules, which specify the methods for taking on credit risk with customers, and the Rules on Credit Strategies, which are designed to direct the development and composition of the loan portfolio towards a risk/return profile that is recognised as optimal over the medium/long-term.
With reference to the integration of UBI, at the end of November 2020 transitional regulations on credit were issued, regarding the management of credit risk, to be implemented in the transitional period.
Those operating instructions mainly envisage:
- common rules for managing customers shared by ISP and UBI, setting out the aggregation of risks for shared customers and a mechanism for coordination between the managers of shared positions;
- the need to request a compliance opinion from the competent decision-making bodies of Intesa Sanpaolo for credit granting proposals and management proposals (classification, adjustments and waivers) for non-performing loans beyond the thresholds set by the competent functions of Intesa Sanpaolo;
- standardised management of oversight on the Most Significant Transactions, Related Parties, Associated Entities, Board Members and General Managers and other relevant persons pursuant to Art. 136 of the Consolidated Law on Banking of UBI Banca and Intesa Sanpaolo.

The credit risk management processes also envisage the periodic review of all the credit positions by the relevant head office or local structures and the assessment of customers not only at the initial lending stage, but also on a continuous basis, by means of a monthly monitoring process that interacts with credit management and control processes and procedures to ensure timely assessment of any signs of impairment, with an impact on the level of risk of the exposures. An Early Warning System is in place for the Corporate, Retail SME, Retail and Institutions portfolios, with adaptations introduced alongside the updates to the internal rating models. The system was developed on the basis of the indicators identified in the Asset Quality Review and consists of a statistical component and a qualitative component, plus manual triggers by event. The indicators are updated on a daily basis and, when they confirm a potential anomaly in the management of the relationship the related positions are detected and reported in the Proactive Management Process.

The valuation of the adjustments to the performing and non-performing exposures[10] is based on methods consistent with IFRS 9, described in detail in Part A of the 2020 Annual Report – Section "A. 2 - Main financial statement captions" and in particular in the paragraph "*Impairment of assets".*

Country risk is an additional component of an individual borrower's insolvency risk, measured by credit risk control systems. This component is linked to losses potentially resulting from international lending operations caused by events in a country that are partly or entirely within the control of the government concerned, but not that of the individual residents of the country in question. Country risk therefore takes the form of both transfer risk for non-sovereign counterparties, due to the freezing of international payments, and sovereign risk, which is measured through an assessment of the sovereign states' creditworthiness. This definition includes all forms of cross-border lending to entities residing in a given country, whether they are the government, a bank, a private enterprise or an individual.
The country risk component is used in the granting of credit to non-resident entities in order to obtain a preliminary evaluation of the absorption of country risk limits set on an ex-ante basis. These limits, expressed in terms of economic capital, identify the maximum acceptable risk for the Group, set on an annual basis in the Group Risk Appetite Framework.

Counterparty risk is a particular kind of credit risk associated with OTC and SFT (Securities Financing Transactions namely repurchase agreements and securities lending transactions) derivative contracts, that refers to the possibility that a counterparty may default before the contract expires. This risk, which is often referred to as replacement risk, is related to the case in which the market value of a position has become positive and thus, in the case of default of the counterparty, the solvent party would be forced to replace the position on the market, thereby suffering a loss.
With regard to counterparty risk, the Banking Group has an internal model for measuring this risk both for regulatory (only for the Parent Company) and operational purposes.
Potential exposure (estimated with the actual average PFE - Potential Future Exposure) has been adopted by the entire Banking Group for the purposes of operational measurement of uses of credit lines for derivatives and SFTs. The Financial and Market Risks Head Office Department produces daily estimates for the counterparty risk measurements, for the measurement of the uses of credit lines for OTC derivatives and SFTs for the Parent Company and Fideuram. The other Group Banks use the PFE method, in simplified form, using internally estimated Add-ons.
In addition, the following company processes were implemented to complete the risk analysis process for the exposure measures implemented over time following the developments discussed above:
- definition and periodic calculation of stress tests on market scenarios and joint market/credit scenarios on counterparty risk measures;
- definition and periodic analysis of Wrong-Way Risk, i.e. the risk of a positive correlation between the future exposure to a counterparty and that counterparty's probability of default;
- definition and monitoring of management limits;
- contribution of collateral inflow/outflow risk measures, calculated on the basis of the internal counterparty risk model, for OTC derivatives and SFTs with margining agreements (CSA, GMRA and similar);
- periodic reporting to the management of measures calculated using the internal exposure model, capital requirement, level of use of management limits, results of stress tests and analyses of wrong-way risk;
- definition and periodic calculation of back-testing analyses to monitor the predictive performance over time of the model with respect to the movements of the risk factors underlying the transactions in the portfolio.

The concentration risk arises from the exposure to counterparties, groups of related counterparties and counterparties in the same business segment or that engage in the same business or operate in the same geographical region. In the annual update of the Risk Appetite Framework, such counterparties are subject to stress tests aimed at identifying and assessing threats for the Group and the most appropriate mitigating actions:
- aimed at defining exposure limits for specific geographical areas and sets of counterparties (e.g.: the top 20);
- aimed at ex-ante limitation of exposures with significant concentration effects, in particular with reference to "large exposures" and to credit lines subject to country risk;
- aimed at ex post correction of the profile, through the secondary loan market, through specific judgement metrics based on the maximisation of overall portfolio value.

The acquisition of UBI did not significantly alter the Group's overall position, both regarding positions in securities and regarding credit exposures. At the acquisition date, the UBI Group held a small position in securities and a loan portfolio featuring a limited percentage of corporates and a significant prevalence of small and medium-sized counterparties and individuals, with resulting benefits in terms of the diversification and division of the overall loan portfolio of the Group.

Through specific control, guidance and coordination activities, the Internal Validation and Controls Head Office Department within the Chief Risk Officer Governance Area oversees the credit granting and management processes for the performing loans portfolio at the Group level, and through controls on individual positions, assesses that loans are properly classified. It also assesses the compliance of the internal risk measurement and management systems over time as regards determination of the capital requirements with the regulatory provisions, company needs and changes in the relative market.
The Group's lending activity is focused on Italian customers (80% of the total, in line with the 2019 value) and is primarily aimed at households and small and medium enterprises.
The exchange of basic information flows between different Group entities is assured by the Group's Central Credit Register (exposure monitoring and control system) and by the "Posizione Complessiva di Rischio" (global risk position), which highlight and analyse credit risks for each counterparty/economic group both towards the Group as a whole and towards individual Group companies.

[10] The analytical statistical measurement of the non-performing exposures applies to non-performing past-due due exposures and bad loan and unlikely-to-pay positions equal to or less than 2 million euro for the Parent Company. For Group companies, the threshold value for analytical-statistical measurement is set by the competent bodies of the individual companies, in coordination with the structures of Intesa Sanpaolo, at a level that is not, in any event, higher than that set by the Parent Company.

From the September 2018 monthly report – following the preparation of the input and generation architecture for the Anacredit reporting, aimed at supporting the "collection of granular credit and credit risk data" as defined by EU Regulation 2016/867 of 18 May 2016 – a new reporting system has been in place in compliance with the regulatory provisions established by the ECB and implemented by the related Central National Banks.

Policies for hedging and mitigating risk

The risk mitigation techniques include the instruments that contribute to reducing the loss the Bank would incur in the event of counterparty default, i.e. the Loss Given Default described in the paragraph above. In particular, they include guarantees and certain types of contracts that result in a reduction in credit risk.
The evaluation of the mitigating factors is performed through a procedure that assigns a loss given default to each individual exposure, assuming the highest values in the case of ordinary non-guaranteed financing and decreasing in accordance with the strength given to any mitigating factors present. The Loss Given Default values are subsequently aggregated at customer level in order to provide a summary evaluation of the strength of the mitigating factors on the overall credit relation.
During the credit granting and managing process, the acquisition of mitigating factors is encouraged for counterparties with non-investment grade ratings or some types of transactions, namely medium/long-term transactions.
The mitigating factors that have the greatest impact include pledges of financial assets and residential mortgages. Other forms of risk mitigation are pledges of non-financial assets and non-residential mortgages.
The strength of the personal guarantees issued by rated parties, typically banks/insurance companies, Credit Guarantee Consortia and corporations, is instead assessed on the basis of the type of guarantee and guarantor's credit quality.
Detailed processes govern the material acquisition of individual guarantees, identifying the responsible structures as well as the methods for correct finalisation of guarantees, for filing documentation and for complete and timely reporting of the related information in the applications.
The set of internal regulations and organisational and procedural controls is aimed at ensuring that:

- all the fulfilments are planned to ensure the validity and effectiveness of the credit protection;
- for generally and normally used guarantees, standard contracts are defined, accompanied by instructions for use;
- the methods for approving guarantee documents deviating from the standard by structures other than those in charge of commercial relations with the customer are identified.

The management of guarantees received uses a single platform at Group level, which is integrated with the register of assets and the portal that manages the real estate valuations.
The granting of credit with the acquisition of collateral is subject to internal rules and processes – for the evaluation of the asset, the acceptance of the guarantee and the control of its value. The enforcement of the guarantee is handled by specialist departments, which are responsible for credit recovery.
In any case, the presence of collateral does not grant exemption from an overall assessment of the credit risk, mainly concentrated on the borrower's ability to meet the obligations assumed, irrespective of the associated guarantee.
The assessment of the pledged collateral is based on the actual value, namely the market value for financial instruments listed in a regulated market, or, otherwise, the estimated realisable value. The resulting value is multiplied by the haircut percentage rates, differentiated according to the financial instruments accepted as collateral.
For real-estate collateral, the prudential market value is considered; for properties under construction, the construction cost is considered, net of prudential haircuts according to the intended use of the property.
Assets are appraised by internal and external experts. The external experts are included in a special list of professionals accredited on the basis of an individual verification of their capabilities, professionalism and experience. The valuation of residential properties used as collateral for mortgage loans to private individuals is mainly assigned to specialised companies. The work of the experts is monitored on an ongoing basis, by means of statistical verifications and spot checks carried out centrally.
The experts are required to produce estimates on the basis of standardised expert reports, differentiated according to the valuation method to be applied and the characteristics of the asset, in accordance with the Property Valuation rules for credit purposes drawn up by the Bank. The internal rules are consistent with the "Guidelines for the valuation of properties securing credit exposures" promoted by the Italian Banking Association and with the European Valuation Standards.
Property valuations are managed through a specific integrated platform covering the entire expert analysis phase, ensuring that assignments are properly awarded, on an independent basis and according to objective criteria, the workflow is thoroughly monitored, valuation standards are correctly applied and all information and documents regarding real estate are kept.
The market value of collateral property is recalculated periodically through various statistical valuation methods, which apply prices/ratios provided by an external supplier offering proven skills and a solid reputation for surveying and measuring the market prices of Italian real-estate assets.
Asset value is constantly monitored. The experts carry out inspections and verify the work progress for properties under construction. The valuation is duly updated in the event of limitation or splitting of the mortgage, of damage to the property, significant impairment losses reported by market indicators used to monitor fair value and, in any case, according to the maturities established for the most significant exposures, or when there are real estate guarantees securing non-performing loans.
In order to limit the risks of absence or termination of the protection, specific safeguards are in place, including: restoration of a pledge when the assets decrease below their initial value or, for real estate guarantees, an obligation to carry insurance cover against fire damage and the presence of adequate monitoring of the property's value. There is also an "umbrella" insurance policy that, with limited exceptions, covers damages on the entire portfolio of properties mortgaged as collateral for the loans granted. Guarantees are subject to accurate, regular control using a specific application, the CRM verifier, in which a series of tests have been implemented to confirm the effective compliance with the requirements set by prudential supervision regulations.
The support application verifies whether the guarantees received are eligible with regard to all three methods permitted by the regulations for calculating capital requirements (Standardised and Internal Rating Based). Based on the specifics of each category, the eligibility results are defined at the level of individual guarantee for unfunded guarantees (usually personal

guarantees) or, for collateral, for each asset or financial instrument.
The Bank completed the implementation of two integrated asset and guarantee management systems (PGA - Active Guarantees Portal and ABS - System Assets Archive) in order to improve the efficiency of collateral management. This has been accompanied by the development of a specific system for managing bad loans, to track the main legal actions and particularly those relating to the enforcement of real estate collateral (EPC - Ex Parte Creditoris).

In order to mitigate the counterparty risk associated with OTC (i.e., unregulated) derivatives and SFTs (securities financing transactions, i.e. securities lending and repurchase agreements), the Group uses bilateral netting agreements that allow the netting of claims and obligations if a counterparty defaults.
This is achieved by entering into International Swap Derivatives Association (ISDA) and International Securities Market Association/Public Securities Association (ISMA/PSA) agreements, which also reduce the absorption of regulatory capital in accordance with supervisory provisions.
In addition, the Group has collateral agreements in place, mainly with daily margining, to hedge OTC derivatives transactions (Credit Support Annexes), also due to the margin requirements for non-centrally cleared derivatives, established by the EMIR; for SFTs, the Bank implements daily margining agreements (GMRAs - Global Master Repurchase Agreements and GMSLAs - Global Master Securities Lending Agreements).
With regard to substitution risk, to mitigate risk exposure to specific counterparties, the Bank acquires protection through single name Credit Default Swaps. Furthermore, the Bank also purchases single name CDS or CDS on indexes to mitigate the risk of adjustment of the valuation of the credit or CVA.

In 2020, the Parent Company continued its activities relating to the “GARC” (Active Credit Risk Management) Project, involving a platform for monitoring credit risk in performing portfolios. The initiative involves the systematic acquisition of guarantees (both personal guarantees and collateral) to support lending to companies. In particular, considering the economic and market context in 2020, during the year specific initiatives were activated to support companies damaged by the COVID-19 emergency, with guarantees issued by the Guarantee Fund for SMEs.

The guarantees obtained provide hedging of default risk (past due, unlikely to pay and bad loan) of granular portfolios and freeing up of economic and regulatory capital, as envisaged by the current Supervisory Regulations on the matter (including Regulation (EU) 575/2013 and Bank of Italy Circular 285/2013).

During the year – again as part of the “GARC” Project – the following were finalised: (i) a “Line A” portfolio relating to a tranched cover synthetic securitisation on newly-issued portfolios promoted by the Piedmont Regional Authority under the 2014-2020 Regional Operational Programme of the European Regional Development Fund – Axis III “Competitiveness of production systems” – Thematic Objective III.3 “Promoting competitiveness of SMEs” – “Measure to support access to credit for piedmontese SMEs through the establishment of the 2017 Tranched Cover Piemonte Fund”; (ii) a newly issued portfolio dedicated to new business of companies in the Veneto Region as part of the programme of the Guarantee Fund for SMEs.

For details of the transactions carried out in 2020 under the GARC Project, see the description provided in the 2020 Annual Report – Part E paragraph C. Securitisations

In order to optimise capital absorption, transactions to hedge the risk of expropriation of the compulsory and unrestricted reserves of the ISP Group banks operating in Bosnia Herzegovina, Egypt and Moldova were also renewed.

Impacts from the COVID-19 pandemic

Since the beginning of the pandemic all the Bank's functions have been involved in an extensive and complex set of actions aimed at supporting all the types of Group customers. This was provided through both the offer of government support and through initiatives implemented autonomously by the Group.
The pandemic caused a significant threat to the resilience of the companies in the Group's loan portfolio. On the other hand, a series of unprecedented government measures were implemented to support the economy, which must be considered in assessing risk. The speed of change in the economic and social context has increased the level of uncertainty of economic forecasts used as the basis for the estimates of risk appetite. This phase thus requires a greater capacity to adapt and attention to the various challenges laid down by the current credit risk assessment models. Thus, it was decided to recalibrate the risk appetite, to avoid pro-cyclical conduct while supporting the economy, maintaining a solid financial and equity position.
With specific reference to the Credit Risk Appetite (CRA) framework, approved by the Board of Directors' meeting of 4 February 2020, the risk and resilience drivers on the scope of Domestic Corporate and Large Corporate (Italy component) were revised and a vulnerability indicator was introduced. The risk and resilience drivers on the scope of Domestic Corporate and Large Corporate (Italy component) were revised to consider the particular effect of the lockdown on specific micro-sectors and the recovery expected in 2021. The vulnerability indicator is based on the company's liquidity profile and its resulting ability to service existing debt and contracted debt in relation to the COVID-19 emergency. The assessment of sustainability falls within the framework of a generic year of return to normal conditions following the crisis. The methodological decision to consider a post-crisis time horizon was due to the need to sterilise the transitional effects of the crisis, such as the exceptional institutional measures (e.g. moratoria, grace period for new secured transactions) and the volatility of net working capital, as well as to assess the medium/long-term sustainability in order to reduce the pro-cyclical effects. Thus, this indicator can contribute to providing an initial – though partial – response to the expectation of reducing to the minimum any cliff-edge effects at the time that the moratoria expire.
For Retail SME, it was decided to replace the risk and resilience drivers with a single resilience factor, adopted at micro-sector level. In particular, this action was aimed at defining greater granularity in highly populated macro-sectors in order to differentiate the treatment of counterparties that suffered greater consequences of the pandemic from customers in micro-sectors that are more resilient to the current economic context. Using micro-sector-based scenarios, it was possible to identify the companies that suffered a greater impact from the lockdown and estimate, in advance, their new funding requirements, thereby identifying, assessing and implementing solutions that can best support these companies. Due to the introduction of exceptional institutional measures, many counterparties contracted additional debt to attempt to survive the crisis phase.
In addition to the methodologies and processes developed by the Chief Lending Officer (CLO) Area and the Chief Risk Officer (CRO) Area, the Internal Validation and Controls Head Office Department (CRO Area) developed a model using machine learning techniques, for the purpose of assigning positions in the Corporate Performing scope a risk score in terms of probability of being classified in greater risk classes in the next six months. That model was refined during the year in order to make it more reactive to capturing signs of crisis/recovery specific to the COVID period. The main objective of the model is to support the Level II controls on credit (single name), specifically as regards selecting the positions to be tested.
In line with the roll-out plan updated by the Intesa Sanpaolo Group and adopted following the measures set out by the Supervisory Authorities as a result of the emergency COVID-19 crisis, the re-estimation continued of all Corporate and Large Corporate PD models (submission of application Q1 2021), Banking LGD/EAD (Q1 2021), Leasing/Factoring LGD/EAD (Q4 2021), Structured Finance (Q4 2021), Retail (Q1 2021) and Retail SME (Q4 2021)), and the related remediation plans were closed[11].
With reference to determining the Expected Credit Loss (ECL), as described in more detail in Paragraph 2.3 "Methods for measuring expected losses" of the 2020 Annual Report (Part E – Section 2: Risks of the prudential consolidation), the macroeconomic context that marked 2020 made it necessary to intervene in the methods for determining the ECL to best capture the specific factors connected to the pandemic. The measurements of performing loans saw a significant increase in 2020.
Even in March 2020, the Group followed the instructions provided by various authorities to supplement the ordinary measurement process with management overlay actions, in order to produce an initial estimate of the possible effects on the measurement of loans linked to the COVID-19 pandemic. The profit or loss effects of these measures, recognised in the financial statements under provisions for risks and charges (and in the provisions for liabilities), were determined:

- considering the full effect on the entire performing portfolio of the alternative worst-case scenario identified in December 2019, which envisaged an even greater economic slowdown than the scenario envisaged by the ECB;
- estimating the impact of the denotching of the riskiest part of the performing portfolio – identified using a top-down approach solely for valuation purposes – by identifying the economic sectors most at risk.

In June 2020, it was possible to adopt a more structured measurement process. The construction of the most-likely and alternative scenarios incorporated the macroeconomic projections of the European Central Bank issued on 4 June and of the Bank of Italy, also considering the impacts of the government guarantees and moratoria in estimating the forward-looking ECL. Lastly, a specific aggravating factor was introduced for some micro-sectors of economic activity particularly hard hit by the COVID-19 crisis, to increase the granularity of the inclusion of impacts of the macroeconomic context on the micro-sectors; a methodological change was made to the forward-looking models (satellite models), modifying the macroeconomic cycle indicators (provided at system level by the Bank of Italy) from the decay rates (transition to bad loan status) to the default rates[12], and, as a result, the thresholds for significant increases in credit risk (SICR) were updated.
At September 2020, no significant changes were made to the approach described.

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[11] The support measures set out by the ECB for the current health emergency – communicated via the FAQs published on 20 March 2020 and a letter addressed to the Group dated 30 March 2020 – postponed the following by six months, while maintaining the validity of the decisions and measures already taken:

- the deadlines for the remedial actions imposed in the context of inspections (ordinary, linked to the TRIM project and on internal risk models);
- the issuance of TRIM Decisions, follow-up letters relating to ordinary inspections and internal model decisions, unless the Group explicitly asks for a decision because it is seen as beneficial to the Group.

[12] Under ordinary conditions, the trend in decay rates and default rates is generally comparable, however, in the event of rapid and extensive changes in the macroeconomic environment, there is a misalignment between the behaviour of the two indicators, making the use of deterioration rates less appropriate for determining the portfolio's point-in-time parameters.

Lastly, at December 2020, the macroeconomic scenario was updated, implementing the instructions provided by the ECB and the Bank of Italy, the thresholds for significant increases in credit risk (SICR) were updated and the micro-sector-based correction was remodulated, using a more analytical and targeted criterion.
With regard to the ECL of non-performing loans, the macroeconomic projections of the European Central Bank and the Bank of Italy on June and December 2020 were implemented to estimate the conditioning of the forward-looking scenarios. In line with the previous years, an upside scenario was ruled out, remaining anchored to the downside scenario.

In order to support customers impacted by the pandemic, risk monitoring was accompanied by initiatives coordinated by the Divisions and the Chief Lending Officer Area, which guaranteed a timely response both in commercial and credit terms.
All the initiatives have been planned in accordance with the principles of sound and prudent management and based on the Group's credit risk appetite. In some cases, the initiatives were carried out by moving up certain legislative measures and guiding the practices of the Italian banking system.
In detail, the support initiatives launched during 2020 included the following:

- suspension of payments for outstanding mortgage loans and loans for households and businesses (legislative and non-legislative moratoria);
- activation of concrete measures to support Italian Businesses, including credit lines and instruments to support liquidity and investments, which may be combined with guarantees issued by the Guarantee Fund for SMEs pursuant to Italian Law 662/96 and SACE, as well as innovative solutions to guarantee business continuity;
- suspension of the revocation of short-term credit facilities, implementing the legal measures set out in the "Cura Italia" Decree and the subsequent "Agosto" Decree.

With specific reference to portfolio management, the standard early warning indicators and pro-active credit management processes, an additional operating level of measurement was introduced, which joins sector-based forecasts with additional risk indicators.
As part of ordinary credit initiatives, the Group launched numerous initiatives to manage any cliff-edge effects caused by the end of the legislative and non-legislative moratoria on the repayment of debt granted to manage the impacts deriving from the pandemic. In particular, priority scopes were identified based on the following risk indicators:

- medium/high sector risk;
- rating;
- vulnerability indicators jointly defined by the CLO Area and the CRO Area (based on the counterparty's liquidity profiles and ability to honour debt service deriving from the COVID-19 emergency).

The Group is managing the delicate phase of handling the maturities of that portfolio through the following actions:

- targeted communications to customers to provide them with advance notice of the expiry of the support measures;
- analysis of initiatives of extending moratoria / refinancing / products dedicated to supporting customers impacted by COVID-19.

The CLO Area routinely defines and launches initiatives dedicated to specific areas of risk that it deems require additional investigation.
Based on the business segmentation, the management team involved in the initiative measures the counterparties' risk and provide feedback to the head office departments based on a predefined set of results. A structured analysis of the relationship manager contributes to the choice of such results (forward-looking analysis where possible, assessment of the counterparty risk expected in the following month or the next 12 months).
With reference to the pro-active management process of the Corporate segment, and in addition to the initiatives involving the Intesa Sanpaolo network, internal dialogue with relationship managers and product desks was also intensified, with a specific focus on the sectors with greater exposure to the pandemic emergency, in order to promptly detect signs of potential financial tension. Using a bottom-up approach, the Corporate customers and "big ticket" positions selected were steered to a phase of assessment of the sustainability of the debt and identification of the most appropriate support measures.
The analysis is based on both internal and external sources. In many cases, Intesa Sanpaolo requested that counterparties revise their business plans and provide post-COVID-19 scenarios, supported by independent analyses conducted by external consultants (usually the Big Four or international business consultants). The standard scope of independent assessments conducted by external consultants includes: i) sector analyses (demand, competition, trend, impact of COVID-19); ii) data on past and current trade; iii) assumptions underlying the business plans (top line, variable and fixed costs, working capital, cash flow generation, etc.) and iv) sensitivity analyses (downside case).
A specific re-rating exercise has been initiated for the Corporate customers, in order for the Group to correctly consider the impacts of the current economic situation with a forward-looking approach that provides a more stable credit rating assessment, by giving greater consideration to the medium/long-term effects. Specific guidelines have been provided to the network to ensure the adoption of a common approach by the Bank's analysts. The guidelines require the rating to be updated in the case where the customer's financial projections or the outlook for its sector show the risk of a potential inability of the counterparty to handle the adverse phases of the economic cycle (through the cycle approach).
The re-rating activity, which accompanies the standard annual auditing plan, was launched on a scope that includes the Banca dei Territori Division and the IMI Corporate & Investment Banking Division. The main approaches to realising the initiative include the following aspects:

- assigning priority to updating the risk profile of customers in the sectors that are more vulnerable to the economic effects of the ongoing pandemic crisis (High and Medium Risk);
- in-depth analysis through business models of the most hard hit sectors;
- the rating should factor in the customer's risk profile expected for the end of 2021, without, however, ignoring the effect of the crisis on financial sustainability;
- the estimate of the recovery times of the company's economic-financial performance;
- the rating should conservatively consider the impact of the crisis, where the recovery occurs over a time horizon greater than 24 months;
- the use of government-mandated or specific moratoria should not, *per se,* be a factor that triggers a downgrade, as it is

aimed at preserving business continuity.

The initiative was focused on approximately 15,600 customers with total exposure of 11 billion euro. As at 31 December 2020, 51% of the exposure (around 5.5 billion euro) was updated, with the following results:

- 50% (out of the total 5.5 billion euro already subject to re-rating) had an unchanged rating;
- 30% reported a downgrading of the rating;
- 20% reported an upgrading of the rating;
- 60% of the scope of the investment grade portfolio was unchanged, while 32% of the scope recorded a downgrading;
- counterparties with an "R" rating, corresponding to the worst risk class, which represent only 6% of the total scope, had their ratings downgraded in 37% of the cases analysed.

With regard to sector-specific forecasts, the scope of the re-rating showed the following results:

- a large percentage (72%) of counterparties in sectors with a "Low" impact of COVID-19 on the sector (around 42% of the scope) showed no changes in their ratings;
- The sectors with a forecast "Medium" impact on the sector (around 44% of the scope) showed an upgrading of the rating in 29% of cases;
- for the counterparties in sectors with a "High" impact of COVID-19 forecast for the sector (around 13% of the scope) the percentage of ratings downgraded rose to 54%.

The re-rating of the counterparties covered by the initiative, whose rating had not yet been updated as at 31 December 2020, is continuing in the first quarter of 2021 and is being constantly monitored by the functions of the Chief Lending Officer Area.

As part of the initiatives to support customers impacted by the pandemic crisis, Intesa Sanpaolo provided to its international subsidiaries with an organic, homogeneous framework for treating legally mandated and autonomous moratoria, in line with the actions of the Parent Company and with the "*EBA Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis*". In particular, indications were provided in correspondence with the key moments:

a) in Q1/Q2, at the time that the EBA defined the general payment moratoria, outlining the access criteria and the application methods regarding the terms of decision-making and classification as forborne;
b) in Q2/Q3, at the time of communicating the expiry of the general payment moratoria of 30 September and the resulting phase out starting from 1 October 2020;
c) in Q4, at the time of re-activating the general payment moratoria, introducing the limit of 9 months of total suspension and the moratoria activation date by 31 March 2021.

With reference to counterparty risk, the pandemic crisis entailed an initial increase in exposures, mainly due to the decline in Euro Area interest rates and the general, significant increase in the volatility of the main risk factors. However, no critical issues were encountered in the margining process with market counterparties, despite the sharp increase in collateral calls, by both number and volume, during the weeks of greatest stress on the markets. Margin processes with central counterparties also did not generate any operating issues. The situation on the financial markets gradually stabilised, although interest rates remain at record lows, resulting in high levels of exposure to customers. With regard to the customers of the Banca dei Territori Division, the Bank implemented the "Cura Italia" Decree pursuant to Italian Law Decree 18 of 17 March 2020 (an ad hoc Italian governmental measure) for derivatives as well: in particular, customers in the SME segments in good standing that submitted moratorium applications for their loans may also apply for a moratorium on any hedging derivatives until the end of January 2021. At the end of December, 175 applications for suspension of OTC derivative payments had been received, relating to an outstanding amount of 340 million euro and payments suspended until 30 June 2021 of around 4.8 million euro. The most significant transaction had an outstanding amount of 22 million euro and suspended payments of 285 thousand euro.

Quantitative disclosure

Total and average of net amount of on-balance sheet and off-balance sheet exposures (EU CRB-B EBA GL 2016/11)

This table reports the net amount of the on- and off-balance sheet exposures as at 31 December 2020 and the average net amount for the period (financial year), with a breakdown by exposure classes, for the IRB and Standardised approaches.

(millions of euro)

		Net value of exposures as at 31 December 2020	Average net exposures over the period
1	**Central governments or central banks**	**-**	**-**
2	**Institutions**	**57,463**	**61,305**
3	**Corporates**	**371,363**	**334,792**
4	Of which: Specialised lending	15,140	15,171
5	Of which: SMEs	91,346	79,913
6	**Retail**	**188,482**	**164,538**
7	Secured by real estate property	134,184	117,831
8	*SMEs*	*8,062*	*6,680*
9	*Non-SMEs*	*126,122*	*111,151*
10	Qualifying revolving	2,148	1,076
11	Other retail	52,150	45,631
12	*SMEs*	*28,123*	*22,989*
13	*Non-SMEs*	*24,027*	*22,642*
14	**Equity**	**9,415**	**8,741**
15	**Total IRB approach**	**626,723**	**569,376**
16	**Central governments or central banks**	**185,302**	**158,869**
17	**Regional governments or local authorities**	**2,283**	**1,563**
18	**Public sector entities**	**2,951**	**2,787**
19	**Multilateral development banks**	**1,025**	**971**
20	**International organisations**	**619**	**330**
21	**Institutions**	**12,983**	**10,112**
22	**Corporates**	**52,194**	**50,314**
23	Of which: SMEs	9,875	8,168
24	**Retail**	**23,973**	**22,056**
25	Of which: SMEs	4,484	3,925
26	**Secured by mortgages on immovable property**	**5,888**	**5,176**
27	Of which: SMEs	1,710	1,343
28	**Exposures in default**	**1,756**	**1,806**
29	**Items associated with particularly high risk**	**764**	**1,023**
30	**Covered bonds**	**1,896**	**1,974**
31	**Claims on institutions and corporates with a short-term credit rating**	**-**	**-**
32	**Collective investments undertakings**	**5,941**	**4,401**
33	**Equity exposures**	**3,350**	**2,572**
34	**Other exposures**	**22,144**	**19,826**
35	**Total standardised approach**	**323,069**	**283,780**
36	**TOTAL**	**949,792**	**853,156**

The consolidated aggregate amounted to 950 billion euro, of which 781 billion euro attributable to ISP and 169 billion euro to UBI. In the interests of immediate continuity and comparability with the previous company reports, the trends and main changes during the half-year for the ISP Group, net of the former UBI Group, are detailed below. The trends and main changes relating to the UBI Group are provided at the end of this section.
With regard to the movements in the aggregates for ISP, there was strong growth in the exposure values at the end of the year (+6.5%), driven by the increase in the "Central governments or central banks" portfolio (+37.5 billion euro) and the growth in loans to "Corporates" (+9.3 billion euro) and "Retail" loans (+7.5 billion euro). The growth was a reflection of the economic support measures implemented by the authorities to deal with the impacts of the COVID-19 epidemic crisis, through government guarantee schemes, as well as the funding provided to customers to preserve liquidity conditions and stabilise

business continuity for companies, partially offset by the reduction in exposures to Institutions (-7.3 billion euro). In terms of allocation, there were no structural changes in the weight of the different portfolios within the overall aggregate compared to 2019, given that the higher weight of “Central governments or central banks” was mainly due to the reclassification to that class of loans to customers backed by government guarantees. The comparison of the year-end figures shows a moderately higher level of exposure compared to the average level of exposure over the period, reflecting the sharp economic contraction in the first two quarters, followed by rapid growth as a result of the deployment of the economic support measures.
The trend for UBI was similar, with changes mainly attributable to new Law 662 and SACE disbursements in support of companies affected by the pandemic and positive changes in the portfolios subject to the IRB approach, for counterparties belonging to the Corporate and Retail (SME) segments, the main beneficiaries of the facilities. The most significant change was related to the portfolios subject to the Standardised approaches and was attributable to the “Central governments or central banks” class (+5.7 billion euro), resulting from the increase in the Reserve Requirement and the increase in DTAs, only partially offset by the reduction in exposures to government bonds. “Equity instruments” also increased (+0.8 billion euro) following the exercise of options on the insurance companies Aviva and Lombarda Vita.

Geographical breakdown of on-balance sheet and off-balance sheet exposures (EU CRB-C EBA GL 2016/11)

(Table 1 of 2)

This table reports the net amount of the on-balance sheet and off-balance sheet exposures as at 31 December 2020, with a breakdown by exposure classes and by geographical areas, for the IRB and Standardised approaches.

(millions of euro)

		NET VALUE AS AT 31 DECEMBER 2020										
		EUROPE	*of which: France*	*of which: United Kingdom*	*'of which: the Netherlands*	*of which: Spain*	*of which: Hungary*	*of which: Italy*	*of which: Luxembourg*	*of which: Germany*	*of which: Croatia*	*of which: Slovakia*
1	Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-
2	Institutions	37,332	*2,800*	*1,086*	*908*	*935*	*14*	*24,049*	*359*	*1,011*	*17*	*8*
3	Corporates	335,540	*7,696*	*6,325*	*5,301*	*7,086*	*228*	*270,391*	*7,624*	*6,390*	*268*	*5,469*
4	Retail	188,334	*28*	*148*	*17*	*9*	*2*	*179,172*	*15*	*43*	-	*8,529*
5	Equity	9,005	-	-	*200*	-	-	*8,790*	*6*	-	-	-
6	**Total IRB Approach**	**570,211**	***10,524***	***7,559***	***6,426***	***8,030***	***244***	***482,402***	***8,004***	***7,444***	***285***	***14,006***
7	Central governments or central banks	162,916	*6,271*	*721*	*394*	*11,945*	*2,000*	*124,570*	*1,412*	*1,589*	*4,686*	*1,542*
8	Regional governments or local authorities	2,283	*44*	-	-	*41*	*17*	*1,416*	-	*8*	*222*	*142*
9	Public sector entities	2,866	*146*	-	-	*1*	-	*1,804*	-	-	*594*	*5*
10	Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-
11	International organisations	-	-	-	-	-	-	-	-	-	-	-
12	Institutions	11,413	*523*	*880*	*314*	*247*	*70*	*6,537*	*396*	*1,079*	*118*	*3*
13	Corporates	47,575	*1,037*	*2,523*	*831*	*267*	*2,450*	*25,737*	*1,904*	*883*	*2,974*	*725*
14	Retail	22,188	*11*	*11*	*1*	*4*	*745*	*12,031*	*13*	*5*	*3,567*	*1,892*
15	Secured by mortgages on immovable property	5,887	*1*	*2*	-	-	*751*	*2,614*	-	*1*	*1,209*	-
16	Exposures in default	1,681	*1*	-	-	-	*69*	*1,112*	*1*	-	*245*	*117*
17	Items associated with particularly high risk	692	-	-	-	-	*43*	*382*	*174*	*1*	*39*	-
18	Covered bonds	1,615	*373*	*146*	*103*	*39*	*129*	*371*	*50*	*23*	-	*75*
19	Claims on institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	-	-	-	-
20	Collective investments undertakings	5,386	*4*	*94*	-	-	*12*	*3,367*	*1,783*	-	-	-
21	Equity exposures	3,093	-	-	-	-	*20*	*3,010*	*2*	-	*2*	-
22	Other exposures	21,673	*3*	*3*	-	-	*162*	*19,681*	*235*	*4*	*539*	*399*
23	**Total Standardised Approach**	**289,268**	***8,414***	***4,380***	***1,643***	***12,544***	***6,468***	***202,632***	***5,970***	***3,593***	***14,195***	***4,900***
24	**TOTAL**	**859,479**	***18,938***	***11,939***	***8,069***	***20,574***	***6,712***	***685,034***	***13,974***	***11,037***	***14,480***	***18,906***

Geographical breakdown of on-balance sheet and off-balance sheet exposures (EU CRB-C EBA GL 2016/11) *(Table 2 of 2)*

(millions of euro)

		NET VALUE AS AT 31 DECEMBER 2020							
		of which: Serbia	*of which: Russia*	AMERICA	*of which: United States*	A S I A	REST OF THE WORLD	*of which: Egypt*	Total
1	Central governments or central banks	-	-	-	-	-	-	-	-
2	Institutions	*10*	*546*	7,355	*1,854*	10,836	1,940	*404*	57,463
3	Corporates	*172*	*5,386*	24,594	*19,494*	9,438	1,791	*121*	371,363
4	Retail	*25*	*14*	73	*52*	58	17	*1*	188,482
5	Equity	-	-	118	*117*	292	-	-	9,415
6	**Total IRB Approach**	***207***	***5,946***	**32,140**	***21,517***	**20,624**	**3,748**	***526***	**626,723**
7	Central governments or central banks	*1,818*	*155*	9,160	*7,725*	8,806	4,420	*3,042*	185,302
8	Regional governments or local authorities	*92*	-	-	-	-	-	-	2,283
9	Public sector entities	*3*	-	11	*4*	3	71	*71*	2,951
10	Multilateral development banks	-	-	-	-	-	1,025	-	1,025
11	International organisations	-	-	-	-	-	619	-	619
12	Institutions	*24*	*49*	754	*623*	578	238	*130*	12,983
13	Corporates	*2,007*	*787*	1,869	*1,022*	452	2,298	*2,133*	52,194
14	Retail	*1,958*	*60*	65	*14*	17	1,703	*1,701*	23,973
15	Secured by mortgages on immovable property	*846*	*6*	-	-	-	1	*1*	5,888
16	Exposures in default	*52*	*12*	1	-	-	74	*72*	1,756
17	Items associated with particularly high risk	*37*	-	33	*33*	-	39	*39*	764
18	Covered bonds	-	-	238	-	19	24	-	1,896
19	Claims on institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	-
20	Collective investments undertakings	-	-	550	*283*	-	5	*3*	5,941
21	Equity exposures	*2*	-	2	-	250	5	*5*	3,350
22	Other exposures	*319*	*35*	20	*18*	21	430	*430*	22,144
23	**Total Standardised Approach**	***7,158***	***1,104***	**12,703**	***9,722***	**10,146**	**10,952**	***7,627***	**323,069**
24	**TOTAL**	***7,365***	***7,050***	**44,843**	***31,239***	**30,770**	**14,700**	***8,153***	**949,792**

This table shows the value as at 31 December 2020 of the on- and off-balance sheet exposures, with details of the calculation method and the breakdown by exposure class and geographical area. With regard to the breakdown by geographical area, in addition to the aggregate value of exposures by macro-area, the table identifies the countries to which the exposure is greater than 6 billion euro, which together represent more than 91% of the total portfolio, with the domestic market accounting for 72% (67% for the ISP Group and 91% for UBI). The most significant countries that are not specifically identified are, for (i) Europe: Belgium, Turkey, Switzerland, Slovenia, Poland, Ireland and Austria; (ii) for America: Brazil and Canada; and (iii) for Asia: Qatar, China, Japan, United Arab Emirates and India. The aggregate exposure to all these countries, amounting to around 50 billion euro, represented 5.3% of the portfolio.

Concentration of on-balance sheet and off-balance sheet exposures by industry or counterparty types (EU CRB-D GL EBA 2016/11) *(Table 1 of 2)*

This table reports the net amount of the on-balance sheet and off-balance sheet exposures as at 31 December 2020, with a breakdown by exposure classes and by industry, for the IRB and Standardised approaches.

(millions of euro)

		NET VALUE AS AT 31 DECEMBER 2020										
		Agriculture, forestry and fishing	Mining and quarrying	Manufacturing	Electricity, gas, steam and air conditioning supply	Water supply; sewage, waste management and remediation activities	Construction	Wholesale and retail trade; repair of vehicles and motorcycles	Transport and storage	Accommodation and food service activities	Information and communications	Financial Institutions
1	Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-
2	Institutions	-	-	-	353	1	-	-	-	-	2	45,626
3	Corporates	4,582	9,384	113,313	22,036	3,077	25,579	48,824	15,092	4,987	16,620	12,251
4	Retail	3,799	47	7,061	90	135	5,105	10,079	1,280	3,505	839	-
5	Equity	-	-	1	20	-	318	70	37	1	23	8,564
6	**Total IRB Approach**	**8,381**	**9,431**	**120,375**	**22,499**	**3,213**	**31,002**	**58,973**	**16,409**	**8,493**	**17,484**	**66,441**
7	Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-
8	Regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-
9	Public sector entities	-	-	-	63	19	586	-	49	-	4	1
10	Multilateral development banks	-	-	-	-	-	-	-	-	-	-	1,025
11	International organisations	-	-	-	-	-	-	-	-	-	-	-
12	Institutions	-	-	-	-	-	-	-	-	-	-	12,983
13	Corporates	628	492	7,480	1,413	263	2,295	3,371	1,022	812	1,007	22,037
14	Retail	257	65	1,045	73	39	549	1,371	431	259	118	-
15	Secured by mortgages on immovable property	88	-	538	10	17	110	430	77	124	37	-
16	Exposures in default	12	1	330	5	5	147	193	73	69	11	187
17	Items associated with particularly high risk	-	-	-	-	-	74	36	53	7	-	272
18	Covered bonds	-	-	-	-	-	-	-	-	-	-	1,896
19	Claims on institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	-	-	-	-
20	Collective investments undertakings	-	-	-	-	-	-	-	-	-	-	5,760
21	Equity exposures	-	-	2	-	-	1	-	2	-	16	1,596
22	Other exposures	1	-	172	30	4	15	3	6	2	6	-
23	**Total Standardised Approach (*)**	**986**	**558**	**9,567**	**1,594**	**347**	**3,777**	**5,404**	**1,713**	**1,273**	**1,199**	**45,757**
24	**TOTAL**	**9,367**	**9,989**	**129,942**	**24,093**	**3,560**	**34,779**	**64,377**	**18,122**	**9,766**	**18,683**	**112,198**

(*) The table does not include property and equipment and on-balance sheet exposures that cannot be classified to any sector or counterparty type, amounting to 17,825 million euro.

Concentration of on-balance sheet and off-balance sheet exposures by industry or counterparty types (EU CRB-D EBA GL 2016/11) *(Table 2 of 2)*

(millions of euro)

		NET VALUE AS AT 31 DECEMBER 2020										
		Governments and Central Banks	**Households**	**Real estate activities**	**Professional, scientific and technical activities**	**Administrative and support service activities**	**Public administration and defence, compulsory social security**	**Education**	**Human health services and social work activities**	**Arts, entertainment and recreation**	**Other services**	**Total**
1	Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-
2	Institutions	-	-	-	28	-	9,805	-	1,639	9	-	57,463
3	Corporates	-	-	16,894	30,134	6,481	1	310	3,169	995	37,634	371,363
4	Retail	-	145,186	1,727	4,433	972	3	301	1,897	553	1,470	188,482
5	Equity	-	-	167	147	46	-	-	21	-	-	9,415
6	**Total IRB Approach**	**-**	**145,186**	**18,788**	**34,742**	**7,499**	**9,809**	**611**	**6,726**	**1,557**	**39,104**	**626,723**
7	Central governments or central banks	185,302	-	-	-	-	-	-	-	-	-	185,302
8	Regional governments or local authorities	2,283	-	-	-	-	-	-	-	-	-	2,283
9	Public sector entities	-	-	1	60	51	1,961	82	45	28	1	2,951
10	Multilateral development banks	-	-	-	-	-	-	-	-	-	-	1,025
11	International organisations	-	-	-	-	-	-	-	-	-	619	619
12	Institutions	-	-	-	-	-	-	-	-	-	-	12,983
13	Corporates	-	5,178	2,436	1,741	476	10	49	199	135	1,150	52,194
14	Retail	-	18,343	611	339	127	8	27	127	48	136	23,973
15	Secured by mortgages on immovable property	-	3,846	239	158	41	10	17	46	10	90	5,888
16	Exposures in default	3	277	233	25	19	1	4	13	6	142	1,756
17	Items associated with particularly high risk	-	-	75	203	2	-	-	-	-	42	764
18	Covered bonds	-	-	-	-	-	-	-	-	-	-	1,896
19	Claims on institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	-	-	-	-
20	Collective investments undertakings	-	-	-	-	-	-	-	-	-	181	5,941
21	Equity exposures	1,584	-	19	12	7	-	-	-	-	111	3,350
22	Other exposures	-	-	4	19	2	1	-	1	-	4,053	4,319
23	**Total Standardised Approach (*)**	**189,172**	**27,644**	**3,618**	**2,557**	**725**	**1,991**	**179**	**431**	**227**	**6,525**	**305,244**
24	**TOTAL**	**189,172**	**172,830**	**22,406**	**37,299**	**8,224**	**11,800**	**790**	**7,157**	**1,784**	**45,629**	**931,967**

(*) The table does not include property and equipment and on-balance sheet exposures that cannot be classified to any sector or counterparty type, amounting to 17,825 million euro.

With regard to the contributions from the ISP Group, net of the former UBI Group, there was a sharp increase in the total aggregate during the year (+45.2 billion euro, or +6.3% compared to 2019), largely driven by the positive change in exposures to “Governments and Central Banks” (+37.3 billion euro, or +31.6%) and “Manufacturing Activities” (+11.9 billion euro, or +12.7%) and more modest growth in exposures to “Households” (+3.2 billion euro) and “Wholesale and Retail Trade” (+2.9 billion euro); offset by a modest contraction for “Financial institutions” (-4.6 billion euro), “Public administration and defence” (-3.5 billion euro) and “Mining” (-3.5 billion euro). The reconfiguration of the portfolio reflected the measures adopted by the Authorities to deal with the economic impacts of the COVID-19 crisis, through government guarantee schemes, aimed at preserving market liquidity conditions and business continuity for companies, which shift the classification of the loans granted to businesses to exposures to Central Governments. The distribution of the exposures is substantially stable over time, reflecting the adoption of a selective approach to the development of credit, aimed at limiting the overall risk profile, in particular towards the more marginal classes of borrowers in certain sectors traditionally more sensitive to impairment risk, such as “Real Estate Activities” and “Construction”. Also for UBI, the distribution of exposures by product sector is substantially stable, with a similar selective orientation for credit.

Breakdown of on-balance sheet exposures by residual maturity (EU CRB-E EBA GL 2016/11)

This table reports the net amount of the on-balance sheet exposures as at 31 December 2020, with a breakdown by exposure classes and by residual maturity, for the IRB and Standardised approaches.

(millions of euro)

		NET EXPOSURE VALUE AS AT 31 DECEMBER 2020					
		On demand	**<= 1 year**	**> 1 year <= 5 years**	**> 5 years**	**No stated maturity**	**Total**
1	Central governments or central banks	-	-	-	-	-	-
2	Institutions	1,077	7,459	4,604	9,252	-	22,392
3	Corporates	10,659	44,283	75,317	54,130	-	184,389
4	Retail	4,561	4,082	15,916	147,647	-	172,206
5	Equity	-	-	926	-	8,234	9,160
6	**Total IRB approach**	**16,297**	**55,824**	**96,763**	**211,029**	**8,234**	**388,147**
7	Central governments or central banks	4,649	12,661	25,284	52,695	85,976	181,265
8	Regional governments or local authorities	50	147	241	694	1	1,133
9	Public sector entities	53	226	292	993	-	1,564
10	Multilateral development banks	-	10	629	346	-	985
11	International organisations	-	-	165	454	-	619
12	Institutions	2,950	1,672	2,451	558	79	7,710
13	Corporates	5,445	8,309	13,274	9,004	51	36,083
14	Retail	3,910	2,458	4,145	7,202	145	17,860
15	Secured by mortgages on immovable property	11	75	603	5,090	-	5,779
16	Exposures in default	171	427	441	605	46	1,690
17	Items associated with particularly high risk	12	7	95	164	327	605
18	Covered bonds	-	67	1,017	812	-	1,896
19	Claims on institutions and corporates with a short-term credit rating	-	-	-	-	-	-
20	Collective investments undertakings	1,089	185	1,511	497	475	3,757
21	Equity exposures	-	-	-	-	2,657	2,657
22	Other exposures	216	3,610	5,830	375	12,113	22,144
23	**Total standardised approach**	**18,556**	**29,854**	**55,978**	**79,489**	**101,870**	**285,747**
24	**TOTAL**	**34,853**	**85,678**	**152,741**	**290,518**	**110,104**	**673,894**

This table shows the value of the on-balance sheet exposures as at 31 December 2020, with details of the calculation method and the breakdown by residual maturity. For ISP, net of the former UBI Group, there was an effective increase in the total aggregate during the year (+9.7%, or +49 billion euro), within which the breakdown of exposures by residual maturity showed a sharp reduction in exposures callable on demand (-3.3 billion euro), with a maturity of “less than 1 year” (-9 billion euro) of “1 to 5 years” (-3.3 billion euro), against an increase in loans with a maturity of “more than five years” (+21 billion euro) and with no stated maturity (+43.7 billion euro). This reconfiguration reflects the application of the moratoria measures established by the government to counter the economic impacts of the COVID-19 epidemic crisis, as well as a more general shift towards longer maturities to favour financial stabilisation enabling the relaunch of economic activity. The UBI Group also saw a similar reconfiguration of maturities from short to medium/long-term in implementation of the Law 662 and SACE measures, while the increase (+6 billion euro) in exposures without a stated contractual maturity was attributable to the growth in the reserve requirement, as part of the usual fluctuations in the invested financial assets.

Section 7 - Credit risk: credit quality

Qualitative disclosure

Definitions of “non-performing” loans

The Intesa Sanpaolo Group adopts a “per borrower” approach in identifying non-performing exposures. Accordingly, the entire counterparty in the credit relationship is assessed and subsequently classified, rather than the individual credit lines granted to that counterparty.
Based on the regulatory framework, according to the rules of the Bank of Italy, in line with IAS/IFRS and European Supervisory Regulations, supplemented by internal implementing rules, non-performing financial assets are classified into one of the three mentioned categories, based on their level of severity:

- non-performing past-due exposures: this category includes on-balance sheet exposures, other than those classified as bad loans or unlikely to pay that, as at the reporting date, are past due or overdrawn by over 90 days on a continuous basis. The total exposure to a debtor must be recognised as past due if, at the reference reporting date, the amount of the principal, interest and/or fees not paid when due exceeds both of the following thresholds (hereinafter, collectively, the "Relevance Thresholds"):
  - the absolute limit of 100 euro for retail exposures and of 500 euro for non-retail exposures (the "Absolute Threshold"), to be compared with the total amount past due from the borrower;
  - the relative limit of 1%, to be compared with the ratio of the total amount past due to the total amount of all recognised exposures to the same borrower (the "Relative Threshold").
- unlikely-to-pay loans: exposures for which - according to the judgement of the creditor bank - full repayment is unlikely (in terms of capital or interest, and without considering recourse to actions such as enforcement of collateral arrangements). This assessment is conducted regardless of the presence of any amounts (or instalments) due and unpaid. As the assessment of unlikelihood of repayment is at the discretion of the Bank, it is not necessary to await an explicit symptom of anomaly (non-repayment), when there are elements that imply a risk of non-compliance by the borrower (for example, a crisis in the industrial sector in which the borrower operates). The set of on- and off-balance sheet exposures toward the same borrower in said situation is therefore classified under the category "unlikely to pay" (unless the conditions for classification of the borrower among bad loans exist). Loans classified as "unlikely to pay" should include exposures to issuers who have not regularly honoured their repayment obligations (in terms of capital or interest) relating to listed debt securities, unless they meet the conditions for classification as bad loans. To this end the “grace period” established by the contract is recognised or, in its absence, the period recognised by the market listing the security.
  The Intesa Sanpaolo Group’s policy also provides for a further classification within “unlikely to pay” exposures, identified as “forborne unlikely to pay”, which may include counterparties that have at least one exposure subject to forbearance measures that are regularly respected or remain in the state of risk pending the start of the normally imposed cure period (minimum of 12 months);
- bad loans: on- and off-balance sheet exposures to borrowers in a state of insolvency (even when not recognised in a court of law) or in an essentially similar situation, regardless of any loss forecasts made by the Bank. This is irrespective, therefore, of whether any collateral or guarantees have been established to cover the exposures. Exposures whose anomalous situation may be attributed to Country risk are excluded from this category;

The type “exposures subject to concessions - forbearance” has also been established. These are exposures subject to renegotiation and/or refinancing due to financial difficulties (evident or in the process of becoming evident) of the debtor, which effectively constitute a subgroup of both non-performing exposures (non-performing exposures with forbearance measures) and performing exposures (other forborne exposures).
Non-performing exposures with forbearance measures do not represent a separate category of non-performing assets, rather, they are a subgroup of the above categories of non-performing assets.

Non-performing assets are subject to a measurement process resulting in the calculation of the expected loss for uniform categories (identified based on the risk status, duration of risk status and significance of the exposure represented) and the allocation of the value adjustment for each position.
Non-performing loans are measured using two methods:

- analytical-statistical measurement: for exposures equal to or lower than given thresholds, and for all past due and/or overdrawn exposures, based on the use of specific LGD grids;
- specific analytical measurement: for exposures above certain thresholds based on write-down estimates allocated by the relationship manager, following analyses and valuations based on pre-established criteria.

In addition to the valuation component determined through statistical valuation models or through individual expert evaluation, a component is calculated to take into account the evolution of the current operational variables, the future macroeconomic scenarios, and the incremental risk of the counterparty as long as it remains in the specific risk status for unlikely-to-pay exposures (vintage), as well as the sales prospects if present.
The measurement of non-performing positions classified as assets held for sale was carried out based on the expected selling prices of the portfolios determined using fairness opinions.
The measurement methods for non-performing loans are described in detail in the Consolidated Financial Statements - Part A - Section “A. 2 - Main financial statement captions” and in particular in the paragraph “*impairment of non-performing financial assets*”, to which reference is made.

The measurements are carried out upon classification of the exposures as non-performing loans and are reviewed periodically.
The measurement of the loans is reviewed whenever a new event occurs that could affect the prospects for recovery (e.g. change in the value of assets on which collateral has been acquired, developments in ongoing litigation, etc.).
In order to identify such events rapidly, the information set relative to borrowers and guarantors is periodically monitored and the development of out-of-court agreements and the various phases of the judicial procedures under way are constantly monitored.
Management of Group Non-Performing Loans may be directly carried out by the internal organisational structures or by/with external partners granted appropriate assignments. The internal organisational structures are identified, on the basis of pre-determined relevance threshold, as the local organisational units (at regional level) that perform specialist activities, or within the Head Office Departments, which are also responsible for the overall management and coordination of these matters.
The classification of positions within non-performing financial assets is undertaken on proposal of both central and local territorial structure owners of the commercial relation or of specialised central and local territorial structures in charge of the monitoring and recovery of non-performing loans. Classification also involves the use of automatic mechanisms when given objective default conditions arise. This refers, for example, to past-due loans continuously above certain thresholds for certain periods, and to forborne performing positions that have not yet completed their 12-month probation period, if the conditions are identified for the reallocation of those exposures to non-performing loans through the verification of objective parameters.
Furthermore, automatic mechanisms detect any mismatches, thereby ensuring that material non-performing loans to counterparties shared between the Group’s various intermediaries are subject to the required uniform convergence of management decisions. Materiality is represented by exceeding a pre-established warning threshold for loans classified as at the greatest risk, with respect to the overall exposure.
Automatic mechanisms within the system also ensure that positions are allocated to the risk status most representative of their creditworthiness (bad loans excluded) as material default continues.
The return to performing status of non-performing exposures is governed by the Supervisory Authority and specific internal regulations, and takes place on the proposal of the Structures responsible for their management, upon verification that the critical conditions or state of default no longer exist.
Non-performing past due exposures and unlikely-to-pay exposures, not subject to forbearance measures must continue to be classified as such for at least 3 months after they cease to meet the requirements for being classified as such. During the Probation Period the counterparty’s conduct must be assessed in light of its financial situation (in particular, by verifying the absence of amounts past due exceeding the Relevance Threshold).
For counterparties classified as Forborne Unlikely-to-Pay, the application of the cure period of at least 12 months shall prevail. At the end of this period, the position may be reclassified as performing, provided that there are no past due exposures of the borrower and the borrower has repaid a significant amount of the principal and interest and, more generally, the criteria for the counterparties returning to performing status are met.
Exposures classified amongst “past-due loans” automatically become performing when the 90-day probation period has passed. The same mechanism is applied to exposures of moderate amounts previously classified as unlikely to pay when automatic mechanisms detect that the conditions that triggered reclassification no longer apply.
The Internal Validation and Controls Head Office Department of the Chief Risk Officer Governance Area performs the level two control on the individual counterparties with non-performing loans, to verify their correct classification and/or adequate provisioning.

Forborne exposures

Forbearance measures are concessions made to a borrower that is facing, or could face, situations of difficulty in meeting their contractual commitments that would prevent them from meeting their original payment obligations (troubled debt).
The term “forbearance measures” indicates contractual modifications granted to the borrower undergoing financial difficulties (modification), as well as the disbursement of a new loan in order to satisfy the pre-existing obligation (refinancing). “Forbearance measures” include contractual modifications, which may be freely requested by a borrower with regard to a contract already signed, but only if the lender believes that there are circumstances indicating that the borrower is in financial difficulty (the so-called “embedded forbearance clauses”). The concept of “forborne” therefore does not include renegotiations carried out due to commercial reasons/practices, which do not take into account the financial difficulties of the borrower.
In many cases, a situation of financial difficulty is accompanied by a situation of economic instability of the borrower, consisting of the inability of the core business to remunerate all the production factors that the company needs, through the usual sources of cash and at normal market conditions.
The identification of “forborne assets” or “forborne exposures”, in line with the provisions of the EBA regulations and unlike the “per borrower” approach used by the Intesa Sanpaolo Group for the classification of non-performing exposures, necessarily takes place on a “per transaction” basis. The term “exposure” in this context refers to the renegotiated individual contract, rather than all the exposures to the same borrower.
More generally, the Intesa Sanpaolo Group’s policy, based on the instructions provided by the Supervisory Authorities, contains components for the identification of the financial difficulty (of the performing borrower) which, in the event of renegotiation/refinancing, entails the classification of one (or more) credit line(s) among those being granted, if at least one of the following conditions applies:

- a significant deterioration in the debtor’s rating identified in the previous three months;
- the presence of exposures past due by thirty days or more at the date of the measure;
- Early Warning System (EWS) traffic light at “red”, associated with a rating in the highest risk band.

A state of financial difficulty is always assumed in the case where the borrower is classified under non-performing assets.
The definition of forborne exposure applies transversally to the loan classification macro-categories (performing and non-performing). Forborne assets may be included in Stage 2 (Performing) or Stage 3 (Non-Performing – forborne non-performing).

The forbearance measures granted are monitored for minimum periods, differentiated based on the administrative status of the risk assigned to the counterparty. In detail:
- 24 months for performing positions (probation period);
- 36 months for positions classified as non-performing, represented by a cure period of 12 months and a probation period of an additional 24 months.

When a forbearance measure is extended to a performing counterparty, quantitative assessments (lower financial requirement indicator set at 1%) and/or qualitative assessments are performed as envisaged in the EBA Guidelines on the application of the definition of default pursuant to Article 178 of Regulation (EU) 575/2013, which could result in the possible classification under Non-Performing Loans.
According to the Intesa Sanpaolo Group's interpretations, the identification of an exposure as forborne necessarily implies the existence of a "significant increase" in risk since the origination of the loan (and, therefore, a classification in stages 2 or 3, at the time of assignment of the forborne status).
Unlike the forbearance measures, which relate to loans to borrowers in financial difficulty, renegotiations for commercial reasons involve borrowers that are not in financial difficulty and include all transactions aimed at adjusting the cost of the debt to market conditions.
Transactions involving commercial renegotiations result in a change in the original conditions of the contract, usually requested by the borrower, which normally relate to aspects concerning the cost of the debt (or its duration), with a consequent economic benefit for the borrower. In general, whenever the bank carries out a renegotiation to avoid losing its customer, that renegotiation should be considered as substantial because, if it were not carried out, the customer would borrow from another intermediary and the bank would incur a decrease in *expected future revenues*.
These operations, under certain conditions, are treated for accounting purposes as an early repayment of the original debt and the opening of a new loan

Description of the methods adopted to calculate the adjustments

At each reporting date, pursuant to IFRS 9, financial assets other than those measured at fair value through profit or loss are subject to an assessment aimed at verifying whether there is any evidence that the carrying value of the assets may not be fully recoverable. A similar analysis is also performed for loan commitments and for guarantees given that must be tested for impairment under IFRS 9.
In preparation for the determination of the impairment losses, at each reporting date the financial instruments must be assigned to the following categories (Stage Assignment or Staging):
- Stage 1: comprising financial instruments for which, from their initial recognition up to the reporting date, there is no evidence of a significant increase in credit risk;
- Stage 2: it comprises financial assets that have had a significant increase in credit risk since initial recognition;
- Stage 3: if there is evidence of impairment, these financial assets – in line with any other assets pertaining to the same counterparty – are considered impaired and are therefore included in Stage 3.
  The impaired exposures consist of financial assets classified in the categories of bad loans, unlikely-to-pay (UTP) loans and exposures past due by more than ninety days, defined in Bank of Italy Circular 272/2008.

Before illustrating the methods for determining the impairment of performing and non-performing financial assets, it is noted that the treatment described below must be read along with the measures introduced – also as per instructions from regulators - as a result of the COVID-19 pandemic, which are outlined in general in the Consolidated Financial Statements - Section 5 of Part A of the Notes to the financial statements and described in more detail in Part E – Section 1 Credit risk (2.3 Methods for measuring expected losses).

Impairment of performing financial assets

For financial assets for which there is no evidence of impairment (unimpaired financial instruments), it is necessary to check whether there are indicators that the credit risk of the individual transaction has increased significantly since initial recognition. This check, in terms of classification (or, more precisely, staging) and measurement, has the following consequences:
- where these indicators exist, the financial asset is included in stage 2. In this case, in compliance with international accounting standards and despite the absence of an actual impairment, the measurement consists of the recognition of value adjustments equal to the lifetime expected credit losses of the financial instrument. These adjustments are subject to revision at each subsequent reporting date, both to periodically check their consistency with the continuously updated loss estimates and to take account – if the indicators of "significantly increased" credit risk are no longer present – of the change in the forecast period for the calculation of the expected credit loss;
- where these indicators do not exist, the financial asset is included in stage 1. In this case, in compliance with international accounting standards and despite the absence of an actual impairment, the measurement consists of the recognition of the 12-month expected credit losses for the specific financial instrument. These adjustments are subject to revision at each subsequent reporting date both to periodically check their consistency with the continuously updated loss estimates and to take into account – if there are indicators that the credit risk has "significantly increased" – the change in the forecast period for the calculation of the expected loss.

With regard to the measurement of financial assets and, in particular, the identification of the "significant increase" in credit risk (a necessary and sufficient condition for the classification of the asset being measured as stage 2), the following factors constitute the key elements to be taken into account, in accordance with the standard and its operational implementation by the Intesa Sanpaolo Group:
- the variation (beyond set thresholds) of the lifetime probabilities of default compared to the time of initial recognition of the financial instrument. This is therefore an assessment made on a "relative" basis, which constitutes the main driver;
- the presence of a past due position that – subject to the materiality thresholds identified by the regulations – has been in that status for at least 30 days. If these circumstances apply, the credit risk of the exposure is considered to have

“significantly increased” and the exposure is therefore transferred to stage 2 (when the exposure was previously included in stage 1);
- the presence of forbearance measures, which – again on a presumption basis – result in the classification of the exposures under those whose credit risk has “significantly increased” since initial recognition;
- lastly, for banks belonging to the international scope, some of the indicators from the credit monitoring systems specifically used by each bank are also considered for the purposes of the transfer between “stages” where appropriate. This refers in particular to the watch lists, i.e. the credit monitoring systems that – based on the current credit quality of the borrower – place performing exposures above a certain level of risk within a particular range.

Focusing on the main trigger out of those referred to above (i.e. the change in the lifetime probability of default), the significant increase in credit risk (“SICR”) is determined by comparing the relative change in the lifetime probability of default recorded between the initial recognition date of the relationship and the observation date (Lifetime PD Change) with predetermined significance thresholds. The assignment of a Lifetime PD to the individual relationships is carried out by allocating the ratings for each segment according to the masterscale at both the initial recognition date and the observation date. Ratings are determined based on internal models, where available, or on business models. If there are no ratings, the Benchmark PDs are assigned to the type of counterparty being assessed.
The significant deterioration is therefore based on the increase in the lifetime PD caused by downgrades of the position from its origination to the reporting (observation) date, as well as the change in the forecast of the future macro-economic factors.

The above-mentioned “relative” change in lifetime PD is an indicator of the increase or decrease in credit risk during the reporting period. To establish whether, in accordance with IFRS 9, any increase in credit risk can be considered “significant” (and therefore entail a transition between stages), it is necessary to set specific thresholds. Increases in lifetime PD below these thresholds are not considered significant and, consequently, do not result in the transfer of individual credit lines/tranches of debt securities from stage 1 to stage 2. However, this transfer is required if there are relative increases in PD above these thresholds. The thresholds used have been estimated based on a process of simulations and optimisations of forecast performance, carried out using granular historical portfolio data. Specific thresholds are set for the Corporate, Retail, Large Corporate and Retail SME models and extended to the other models based on methodological affinity. The thresholds differ in terms of residual maturity, annual granularity and rating class.
The determination of the thresholds has been calibrated to find a suitable balance between the performance indicators relating to the ability of the thresholds to:
- detect stage 2 positions before their transition to default;
- identify positions for which a return to stage 1 is due to an actual improvement in credit rating.

Some specific considerations apply for the “staging” of the debt securities. Unlike loans, for this type of exposure, sales and purchases after initial recognition (made using the same ISIN) may form part of the ordinary management of the positions (with the consequent need to identify methods to be adopted for identifying the sales and repayments in order to determine the remaining quantities of the individual transactions that need to be allocated a credit quality/rating upon origination to be compared with that parameter at the reporting date). In this regard, the use of the “first-in-first-out” or “FIFO” method (for the recognition of the recorded ECL in the income statement, in the event of sales or repayments) was considered to help in providing a more transparent management of the portfolio, also for the front office operators, while also enabling the continued updating of the credit rating based on new purchases.

Once the allocation of the exposures to the various credit risk stages has been established, the expected credit losses (ECL) are determined at individual transaction or securities tranche level, using the IRB/Business models, based on the parameters of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), to which appropriate corrections are made to ensure compliance with the specific requirements of IFRS 9.
The following definitions apply for PD, LGD and EAD:
- PD (Probability of Default): likelihood of migrating from performing to non-performing status over the period of one year. In models consistent with supervisory provisions, the PD factor is typically quantified through the rating. In the Intesa Sanpaolo Group, the PD values are derived from internal rating models where available, supplemented by external ratings or segment/portfolio average figures;
- LGD (Loss Given Default): percentage loss in the event of default. In the models consistent with supervisory provisions, it is quantified through the historical experience of discounted recoveries on exposures that have become non-performing;
- EAD (Exposure At Default) or credit equivalent: amount of the exposure at the time of default.

As mentioned above, in order to comply with IFRS 9, specific adjustments had to be made to these factors, including in particular:
- adoption of a Point in Time (PIT) PD compared to the Through the Cycle (TTC) PD used for Basel purposes;
- removal of some additional components from the TTC LGD, such as indirect costs (non-recurring costs) and an additional margin of conservatism specifically introduced for the regulatory models, as well as the component linked to the economic downturn;
- the use of PDs and, where necessary, multi-period LGDs, to determine the lifetime expected loss of the financial instrument (stages 2 and 3);
- the use of the effective interest rate of the individual transaction in the discounting of the expected future cash flows, unlike in the regulatory models, where the individual cash flows are discounted using the discounting rates determined in compliance with the prudential regulations.

In relation to the multi-period EAD, in line with IFRS 9 the Intesa Sanpaolo Group refers to the plans at amortised cost for both loans and debt securities, regardless of the measurement method used (amortised cost or fair value through other comprehensive income). For loan commitments (margins), on the other hand, the EAD is assumed to be equal to the nominal amount weighted according to a specific Credit Conversion Factor (CCF).

The measurement of the financial assets also reflects the best estimate of the effects of current and future conditions and in particular the economic conditions that affect the forward-looking PDs and LGDs. IFRS 9, also based on the guidance from the international regulators, gives particular importance to information on future macroeconomic scenarios in which the Bank may find itself and which clearly influence the situation of the debtors, with regard both to the "risk" of migration of exposures to lower quality classes (and therefore concerning the staging) and to the recoverable amounts (and therefore concerning the determination of the expected loss on the exposures). In terms of method, various possible alternative approaches designed to take account of these elements have been analysed. Of the various alternatives considered, the Intesa Sanpaolo Group has decided to adopt the "Most likely scenario+Add-on" approach. According to this approach, the macroeconomic conditioning of PD and LGD is carried out through a baseline scenario ("Most Likely", in line with the approach used for other business purposes such as, for example, the budget and business plans) and then corrected with an Add-On to include any differences compared to downside and upside scenarios. If the overall impact of the Add-On on the risk parameters is positive, the decision has been made to neutralise the effect for both staging and ECL calculation purposes.

The macroeconomic scenario is determined by the Bank's Internal Research Department using forecasting models that are disclosed to the market to determine the consensus. Alternative upside and downside scenarios are determined through stress tests of the input variables of the forecasting models.

In particular, the most likely scenario and alternative scenarios are determined using a set of analytical and stand-alone forecasting instruments that determine the forecast path for several blocks of variables, namely:
- national accounts and inflation of the top 6 Eurozone countries, the United States and Japan;
- official rates (ECB, Fed, BoJ), EUR and USD swap rate curves, and several points of the government curves;
- exchange rates for EUR, USD, JPY and GBP;
- stock market indices (DJ Eurostoxx 50 and S&P 500);
- some specific data for the Italian economy (industrial production, real estate prices, employment, public finance balances).

These forecasts are then processed using the Oxford Economics multi-country structural Global Economic Model, where they replace the forecast paths of the baseline scenario provided by the company with the periodic updating of the database. The model is then solved to derive a consistent global forecasting framework, including variables for which no specific models have been developed, and to obtain a simulation environment that can be used to generate alternative scenarios. This step may require some iterations, particularly if the forecasting framework generated internally is significantly different from the one provided by Oxford Economics. If this is the case, further fine-tuning may be needed for specific secondary variables that the analysts consider to be inconsistent with the forecast scenario or that have an unexplainable quarterly volatility.
The alternative paths are selected using external information. In particular:
- average annual GDP growth rates of several countries: this is the key driver for the simulation and the deviations are determined to replicate the dispersion of the growth estimates published by Consensus Economics in the most recent report available at the date of the simulation, considering the minimum and maximum forecasts (after applying a filter to identify and eliminate possible outliers). If there are outliers, these are discarded and the remaining maximum and minimum values are considered. Since consensus estimates are only available for the first two years of the simulation period, an extrapolation of the deviations identified for the first two years is used for the third year;
- stock market indices (DJ Eurostoxx 50, S&P 500) and US residential real estate prices: the minimum and maximum forecasts of the Thomson Reuters panel are used as a reference;
- Italian residential real estate prices: since no consensus estimates are currently available, the alternative paths are based on the distribution of the historical quarterly changes available from 1980 to the current quarter.

The percentile value identified is used, for the most likely scenario, to determine the variations corresponding to a probability gap, calculated through statistical analysis of the historical distribution of the observations. The two (positive and negative) changes with respect to the most-likely scenario are then used to calculate the level of the individual identified indices, reconstructing the two alternative paths (one positive and one negative) for each of them that represent the input for the determination of the Add-On. The probability gap used is identified based on the variability characteristics of the series, to obtain a significant deviation from the most-likely scenario.
In addition to defining the alternative paths, a map of possible additional factors is maintained, i.e., adverse idiosyncratic events or scenarios (e.g., Brexit, etc.), not explicitly incorporated in the time series used for the construction of the most-likely scenario or in the alternative paths, which can generate further significant effects on expected losses.
The following is assessed for these events/scenarios:
- the possible time frame;
- the degree of inclusion in the most-likely scenario or the alternative paths;
- the potential impact, assessed in qualitative terms.

The map of additional factors also draws on the list of risk factors contained in the forecast reports of the IMF (World Economic Outlook) and the European Commission and may change over time.
Within the assessment of the time frame for the additional factors, note is made if the factor cannot be placed within a specific time period, which makes its incorporation into the most-likely scenario or alternative paths unfeasible.
The assessments made take account of the fact that the consensus estimates may include forecasts that already incorporate the total or partial realisation of one or more risk factors in their estimates, which means that the alternative paths may already incorporate these additional factors to some extent.
Where there is considerable uncertainty in the national and international macroeconomic forecasts, as well as significant deviations in terms of best-case forecasts with respect to the TTC scenario, prudential factors may be introduced in relation to the deviations in the minimum and maximum values of the variables based on the above-mentioned consensus or historical figures.
The above macroeconomic scenarios (most likely and alternative scenarios) are used in internal models to determine the point-in-time (PIT) parameters.
Specifically, the time series of default rates acquired from the Bank of Italy are differentiated over the main economic macro-sectors (e.g. consumer households, family businesses, construction) and, for each of these, specific satellite models establish

the relationships with the macroeconomic variables in order to obtain the forecast default rates. In turn, these impact the TTC transition matrices between rating classes and thus provide the PIT transition matrices for each scenario (most likely and alternative scenarios). These give rise to the lifetime conditional PD.
In particular, the TTC matrices are calculated using internal default rates for the Corporate, Retail SME and Retail segments, whereas the Bank of Italy system rates are used for the Low Default segments, because the internal time series data for those segments is less extensive. The forward-looking point-in-time matrices, on the other hand, are calculated using the system default rates for all the segments.
A similar process is used to determine the PIT LGD grids.

Taking account of the repayment plans of the individual loans, their conditional PD and LGD, residual maturity and staging, the impairment of performing financial assets is determined.

Impairment of non-performing financial assets
Non-performing loans are represented by bad loans, unlikely to pay and past due positions by more than 90 days.
Non-performing loans classified as bad loans are subject to the following measurement methods:
- analytical-statistical measurement, which is used for exposures of less than 2 million euro and is based on the use of specific LGD grids, plus an Add-On to take account of information linked to the evolution of the current conditions related to management variables highly correlated with the loss performance and forward-looking information relating to the impact of expected future macroeconomic scenarios (as described in the previous paragraphs);
- analytical-specific measurement, which is used for customers with exposures exceeding 2 million euro and is based on the impairment percentages allocated by the manager, following specific analysis and measurements, also based on the evolution of the current conditions, plus an Add-On to take account of forward-looking information, and in particular information relating to the impact of future macroeconomic scenarios (except for bad loans backed by mortgage collateral or relating to property leases for which the impact of future scenarios is included through the method used to determine the haircuts to the value of the properties pledged as collateral).

The measurement of unlikely-to-pay loans (UTPs) is also performed based on different approaches:
- analytical-statistical measurement, for exposures of less than 2 million euro, based on the use of specific LGD grids, plus an Add-On to take account of the already mentioned information linked to the current conditions and the impacts of future macroeconomic scenarios, as well as continuation in the risk status, in order to penalise positions with greater vintage or which have no movements and/or recoveries for a particular period of time;
- analytical-specific measurement, for on-balance sheet exposures of more than 2 million euro, based on the impairment percentages allocated by the manager, following specific analyses and assessments also based on the evolution of the current conditions, plus an Add-On to take account, also in this case, of the impacts of future macroeconomic scenarios and of continuation in the risk status.

For Group companies, the threshold value for analytical-statistical measurement is set by the competent bodies of the individual companies, in coordination with the structures of Intesa Sanpaolo, at a level that is not, in any event, higher than that set by the Parent Company.

Regardless of the division of these exposures between those subject to analytical-statistical measurement and those subject to analytical-specific measurement (as identified above), the add-ons envisaged include the sales scenarios for the disposable non-performing loans if the business plan and the NPL reduction plan envisage sales and those sales have not yet been carried out. The valuation of the disposable non-performing loans therefore considers the possibility of also realising these loans through their sale.

Non-performing loans classified in the past-due loans category, on the other hand, are subject to analytical measurement based on statistics, regardless of the amount of the exposure. However, also in this case, the adjustment determined based on the LGD statistical grids is supplemented to take account of the Add-On attributable to the effect of the evolution of the current conditions and the future macroeconomic scenarios.

Credit exposures must continue to be carried as non-performing for at least three months after they cease to meet the requirements for being classified as such (the “probation period”). Until the conditions are met for reclassification out of the non-performing category, such exposures are retained in their respective risk classes and measured according to an analytical-statistical or an analytical-specific approach taking account of their lower risk level.

A brief description is provided below of the methods used for the analytical-specific and analytical-statistical measurement:
- the analytical-specific measurement of bad loans and unlikely-to-pay loans above 2 million euro is a measurement performed by the managers of the individual positions based on a qualitative and quantitative analysis of the borrower's financial position, the riskiness of the credit relationship, the targets and strategies for reduction of the non-performing loans set out in the “NPL Plan”, and any mitigating factors (collateral), taking into account the financial impact of the estimated recovery time.

  For bad loans in particular, a series of elements are relevant, which differ according to the characteristics of the positions, and must be thoroughly and prudently assessed, including the following, listed merely as examples:
  - nature of the credit, whether preferential or unsecured;
  - net asset value of the borrowers/third party collateral providers;
  - complexity of existing or potential litigation and/or the underlying legal issues;
  - exposure of the borrowers to the banking system and other creditors;
  - last available financial statements;
  - legal status of the borrowers and any pending insolvency and/or individual proceedings.

In order to determine the estimated realisable value of loans secured by real estate, and to take into account both the time series of recoveries and the forward-looking information in accordance with IFRS 9, an approach is applied focused on the valuation of real estate based on the expected average auction price and the related reduction in the observed price, with the calculation of average haircuts that differ according to the type of real estate collateral (residential, commercial, industrial and land). Accordingly, to avoid duplications, a macroeconomic Add-On is not used in the analytical-specific measurement for bad mortgage loans, because the forward-looking component is already taken into account through the haircut.
For real-estate bad loans arising from lease contracts, in view of the particular nature of the product (lack of auctions), the haircut is estimated as the depreciation of the asset with respect to the appraised value observed at the time of classification as non-performing and the actual price of sale.

In addition, for unlikely-to-pay loans, the measurement is based on a qualitative and quantitative analysis of the borrower's financial position and on precise assessment of the risk situation.
The calculation of the impairment loss involves the valuation of the future cash flows that the borrower is considered to be able to generate and that will also be used to service the financial debt. This estimate must be made based on two alternative approaches:

- the going concern approach: the operating cash flows of the borrower (or the beneficial owner) continue to be generated and are used to repay the financial debts contracted. The going concern assumption does not rule out the realisation of collateral, but only to the extent that this can take place without affecting the borrower's ability to generate future cash flows. The going concern approach is also used in cases where the recoverability of the exposure is based on the possible sale of assets by the borrower or on extraordinary transactions. Similarly to the case of bad loans, haircuts are also used in measuring real-estate collateral for unlikely-to-pay positions. For going-concern positions, these haircuts are determined on the basis of the haircuts applied in the liquidation process (gone-concern bad loan or UTP position), while applying a calibration factor equal to the probability of migration of the UTP positions to the bad loan category;
- the gone concern approach: applicable in cases when it is believed that the borrower's cash flows will cease. This is a scenario that can apply to positions that are expected to be classified as bad loans. In this context, assuming that shareholders' interventions and/or extraordinary operations to restructure debt in turnaround situations are not reasonably feasible, recovery of the credit is essentially based on the value of the collateral that secures the Bank's credit claim, net of the application of a haircut (determined as for bad loans) and, alternatively, on the realisable value of the assets, taking into account the liabilities and possible pre-emptive claims;

- the analytical-statistical measurement, performed for bad loans and unlikely-to-pay loans of less than 2 million euro and for past-due loans has specific features according to the type of exposure involved.

  With regard to bad loans, the analytical-statistical measurement is based on the Bad Loan LGD grids, where the LGD Defaulted Asset model is mainly characterised by the differentiation of the loss rates that, in addition to the regulatory segment, is based on the continuation in the risk status ("vintage") and the possible activation of legal recovery proceedings. The grids are also differentiated for the other significant analysis axes used in the model estimation (e.g. product type, type of guarantee, geographical area, exposure band, etc.). The recovery time grids are mainly broken down by regulatory segment and by additional significant analysis axes used in the modelling (e.g. recovery procedures, exposure band, product type).

  For unlikely-to-pay loans, the measurement is performed using statistical LGD grids estimated specifically for positions classified as unlikely-to-pay loans, in line with the estimated LGD grids for bad loans. The estimation model for the LGD grid for unlikely-to-pay loans is similar to the one described above for bad loans and calculates the expected loss rate of the relationship being valued according to its characteristics. The LGD for unlikely-to-pay loans is obtained by recalibrating the bad loan LGD using the Danger Rate module. The Danger Rate is a multiplying correction factor, used to recalibrate the bad loan LGD with the information available on the other default events, in order to calculate an LGD representative of all the possible default events and their evolution.
  In addition, for the two subclasses of the "Unlikely-to-Pay Loans" risk status ("Non-Forborne Unlikely-to-Pay Loans" and "Forborne Unlikely-to-Pay Loans"), differentiated grids are estimated to take into account the characteristics of the Forborne loans, which, in addition to having lower average loss levels due to the effect of the Forbearance Measures, are also affected by the regulatory constraints that prevent their return to performing loan status before 12 months from the date of the renegotiation.

  For past-due loans, the methods used to determine the grids are the same as those described for the unlikely-to-pay loans (Framework Danger Rate). In this case, the vintage factor is captured by the introduction of a differentiation based on the duration of the past-due period (Past Due at 90 days/180 days) which produces a significant variation in the loss rates of the grids, which are also differentiated according to regulatory segment and additional analysis axes (e.g. product type, type of guarantee, geographical area, exposure band, etc.) common to the other non-performing loan categories.

  Also in the LGD estimation models used in the analytical-statistical measurement of non-performing exposures, several additional components specifically included for regulatory models were removed, similar to that illustrated for performing exposures.

With regard to the inclusion of current and forward looking information, it should be noted that, also in relation to non-performing exposures, in addition to a component linked to management variables applied by the manager for the analytical-specific measurements and based on a specific Add-On for analytical-statistical measurements, a component linked to the

most-likely and downside scenarios expected over the period of the next three years has been considered, according to the criteria already described.
In fact, as required by IFRS 9, the effects of the forward-looking scenario on LGD estimates must also be considered using the above-mentioned component. As already stated, the forward-looking scenario component is aimed at capturing the non-linearity of the relationship between the macroeconomic variables and ECL measurement, by analysing the forecast uncertainty of the variables used for the preparation of the most-likely scenario. It is based on the methodological framework that is used for performing loans, but ignores the upside scenario from a prudential perspective and only considers the average downside and most-likely scenarios over the period of the next three years.

Also in terms of future scenarios, with regard to the unlikely to pay category, which includes positions that are still performing but show signs of difficulty, both for positions with analytical-specific measurement and those with analytical-statistical measurement, when there are no effective forbearance measures, an additional component shall be applied (in addition to the aforementioned add on from the macroeconomic scenario) to reduce the recoverable amount of the positions based on their vintage in the risk status and the absence of movements and/or recoveries in a specific period of time.

With regard to the alternative recovery scenarios, the Intesa Sanpaolo Group, in relation to the objectives of reducing the stock of outstanding non-performing loans, included in its business plans, and the commitments made to the Supervisory Authorities, with specific regard to the NPL Strategy, considers the sale of particular portfolios as the strategy that, in certain conditions, can maximise the cash flow recovery, also considering the recovery times.
In particular, in its “NPL Guidance” published in March 2017, the ECB requested banks with non-performing loans above the average of European banks to establish a strategy aimed at achieving a progressive reduction in those loans. In 2017, Intesa Sanpaolo submitted a plan to the ECB for the reduction of its non-performing loans, mainly focused on recovery through internal management.
Towards the end of 2017 – following the regulatory developments, with the publication, in October, of the draft Addendum to the NPL Guidance aimed at establishing minimum levels of prudential provisioning for non-performing loans, and the guidance provided by the Supervisory Authority to banks with above-average levels of non-performing exposures on the need to more effectively implement the process of reducing non-performing loans – Intesa Sanpaolo, in its 2018-2021 Business Plan, approved by the Board of Directors, identified significant de-risking as one of its key priorities, also by selling a portfolio of bad loans.
Consequently, the “ordinary” scenario, which assumes a recovery strategy based on the collection of credit, typically through legal actions, mandates to credit recovery companies and the realisation of mortgage collateral, has also been accompanied by the scenario of the sale of the loan as a strategy.
In compliance with the “NPL Guidance” the business strategies regarding NPL reduction are illustrated in the “NPL plan”, a document approved by the Board of Directors to be sent to the Supervisory Authority and updated annually.
Where said document identifies disposal objectives and strategies and, as a result, a portfolio of non-performing loans that may be disposed of, until the disposal objectives are reached, the loans and receivables included in that portfolio shall be measured taking account of both the amount recoverable through operating activities and market valuations (based on external appraisals) and/or sales prices, if already defined.
Where the “NPL plan” specifically identifies the positions to be sold, those positions shall be measured exclusively taking account of the market values established by external experts, based on a specific fairness opinion or, if already defined through a binding agreement with the buyer, the sales price.
Where the “NPL plan” identifies a larger loan portfolio that may be sold represented by loans that are disposable (thus, for example, positions that are not involved in disputes, are not securitised or are not a portion of syndicated loans), in relation to the sales objectives, the book value of said portfolio is determined by weighting the amount recoverable through operating activities with the amount recoverable through sale.
In particular, the recoverable amount of disposable non-performing loans is quantified as the average between (i) the value in the event of sale (fair value) and (ii) the collection amount, weighted on the basis of the percentage of the loans eligible for sale that the Group expects to sell and the percentage that management expects to keep in the portfolio. The “collection amount” was determined according to the ordinary methods adopted by the Group for the impairment of non-performing loans, i.e. based on the individual measurement of the exposures exceeding a defined threshold and based on an analytical-statistical measurement for the others. The analytical-statistical measurement of the “below-threshold” exposures involves grouping them into similar clusters of credit risk. As explained above, the measurement of the value in the event of sale is carried out by an external expert.

As already mentioned, the purchased or originated credit-impaired (POCI) financial assets have specific features in terms of impairment. As a result, value adjustments equal to the lifetime ECL must be recognised on these instruments from their initial recognition date and for their entire lifetime. At each subsequent reporting date, the amount of the lifetime ECL must therefore be adjusted, with the recognition through profit or loss of the amount of any change in lifetime expected credit losses as a gain or an impairment loss. In view of the above, POCI financial assets are initially recognised in stage 3, subject to the possibility of being subsequently transferred to the performing loans stage, even if an expected loss equal to the lifetime ECL will continue to be recognised.
Lastly, with regard to non-performing loans, it is highlighted that the Intesa Sanpaolo Group uses the – full or partial – write-off/derecognition of unrecoverable accounting positions and, in the following cases, the consequent allocation to loss of the remainder that has not yet been adjusted:

a) uncollectability of the debt, as a result of definite and precise elements (such as, for example, untraceability and indigence of the debtor, lack of recovery from realisation of securities and real estate, negative foreclosures, bankruptcy proceedings closed with no full compensation for the Bank, if there are no further guarantees that can be enforced etc.);
b) disposal of the loan;
c) waiver of the credit claim, due to the unilateral cancellation of the debt or residual amount as a result of settlement agreements;

d) no waiver of the credit claim. With regard to the full or partial write-offs without waiver of the credit claim, in order to avoid maintaining loans on the balance sheet that have a very low possibility of recovery, despite continuing to be managed by the recovery structures, they are fully or partially written off due to uncollectability even if the legal proceedings have not been closed. The write-off can only involve the portion of the loan covered by provisions and, therefore, each loan can only be written off up to the amount of its net book value.

Therefore, on a periodic basis, the Group identifies the bad loan portfolios to be subject to total or partial write-offs with the following macro-characteristics:

- percentage cover of 100% and a vintage (understood as the period of time in "bad loan" status) of >1 year;
- percentage cover of >95% and a vintage (understood as the period of time in "bad loan" status) of >5 years or >8 years, respectively, for non-mortgage and mortgage loans.

Portfolios to be written off can also be identified that have similar characteristics that are different from those indicated above, but that relate to exposures that have a marginal possibility of recovering the amount of the provision, where the minimum amount of the provision (calculated taking into account the accumulated write-offs on the position, according to the same rule established at prudential level by the calendar provisioning framework) is at least equal to the amount needed to bring the value of the exposures up to their fair value estimated based on the prices recorded in the latest sales of bad loans made by the Group.

Non-Performing Exposures (NPE) disclosure

This section contains quantitative information on credit quality, supplemented to reflect the disclosure requirements for non-performing exposures and forborne exposures established by the EBA guidelines (EBA/GL2018/10) published in December 2018.

Quantitative disclosure

The quantitative information on the credit quality of the exposures is provided below. For additional information see Part E of the Notes to the Consolidated Financial Statements.

Credit quality of on-balance sheet and off-balance sheet credit risk exposures by exposure class and instrument as at 31 December 2020 (EU CR1-A EBA GL 2016/11)

(millions of euro)

		GROSS CARRYING VALUES		Specific credit risk adjustment (c) (*)	General credit risk adjustment (d)	Accumulated write-offs	Write-offs on NPE during the reporting period (**)	CREDIT RISK ADJUSTMENT CHARGES OF THE PERIOD (***)				NET VALUES
		Defaulted exposures (a)	Non-defaulted exposures (b)					TOTAL	on non-performing exposures	on performing exposures	of which due to write-offs	(a+ b -c-d)
1	Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-
2	Institutions	415	57,270	222	-	21	-	-2	2	-4	-	57,463
3	Corporates	18,678	363,666	10,981	-	4,878	86	1,542	1,204	338	203	371,363
4	*Of which: Specialised lending*	*1,097*	*14,784*	*741*	-	*59*	*1*	*61*	*41*	*20*	-	*15,140*
5	*Of which: SMEs*	*9,750*	*87,411*	*5,815*	-	*4,297*	*49*	*778*	*619*	*159*	*49*	*91,346*
6	Retail	9,001	185,238	5,757	-	1,527	17	704	588	116	20	188,482
7	- Secured by real estate property	4,598	131,835	2,249	-	121	-	301	174	127	10	134,184
8	*SMEs*	*1,126*	*7,513*	*577*	-	*71*	-	*59*	*54*	*5*	*8*	*8,062*
9	*Non-SMEs*	*3,472*	*124,322*	*1,672*	-	*50*	-	*242*	*120*	*122*	*2*	*126,122*
10	- Qualifying revolving	7	2,151	10	-	-	-	-	-	-	-	2,148
11	- Other retail	4,396	51,252	3,498	-	1,406	17	403	414	-11	10	52,150
12	*SMEs*	*2,851*	*27,504*	*2,232*	-	*1,055*	*14*	*273*	*276*	*-3*	*6*	*28,123*
13	*Non-SMEs*	*1,545*	*23,748*	*1,266*	-	*351*	*3*	*130*	*138*	*-8*	*4*	*24,027*
14	Equity	112	9,303	-	-	-	-	-	-	-	-	9,415
15	**Total IRB approach**	**28,206**	**615,477**	**16,960**	**-**	**6,426**	**103**	**2,244**	**1,794**	**450**	**223**	**626,723**
16	Central governments or central banks	-	185,347	45	-	-	-	-18	-	-18	-	185,302
17	Regional governments or local authorities	-	2,297	14	-	-	-	1	-	1	-	2,283
18	Public sector entities	-	2,960	9	-	-	-	-3	-2	-1	-	2,951
19	Multilateral development banks	-	1,025	-	-	-	-	-	-	-	-	1,025
20	International organisations	-	619	-	-	-	-	-	-	-	-	619
21	Institutions	-	13,030	47	-	-	-	-4	-	-4	-	12,983
22	Corporates	-	52,457	263	-	-	8	174	-10	184	2	52,194
23	*Of which: SMEs*	-	*9,988*	*113*	-	-	*3*	*29*	*-4*	*33*	-	*9,875*
24	Retail	-	24,166	193	-	-	23	61	18	43	6	23,973
25	*Of which: SMEs*	-	*4,538*	*54*	-	-	-	*8*	*1*	*7*	*1*	*4,484*
26	Secured by mortgages on immovable property	-	5,961	73	-	-	-	7	-6	13	-	5,888
27	*Of which: SMEs*	-	*1,743*	*33*	-	-	-	*12*	*1*	*11*	-	*1,710*
28	Exposures in default (****)	4,216	-	2,460	-	127	35	158	158	-	15	1,756
29	Items associated with particularly high risk	-	776	12	-	-	-	-	-	-	-	764
30	Covered bonds	-	1,897	1	-	-	-	-1	-	-1	-	1,896
31	Claims on institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	-	-	-	-
32	Collective investments undertakings	-	5,946	5	-	-	-	-4	-	-4	-	5,941
33	Equity exposures	-	3,351	1	-	-	-	-	-	-	-	3,350
34	Other exposures	-	22,268	124	-	-	-	43	-	43	-	22,144
35	**Total standardised approach**	**4,216**	**322,100**	**3,247**	**-**	**127**	**66**	**414**	**158**	**256**	**23**	**323,069**
36	**Total**	**32,422**	**937,577**	**20,207**	**-**	**6,553**	**169**	**2,658**	**1,952**	**706**	**246**	**949,792**
37	Of which: Loans (*****)	29,679	551,687	19,488	-	6,553	169	2,697	2,002	695	246	561,878
38	Of which: Debt securities	33	99,994	150	-	-	-	-7	-	-7	-	99,877
39	Of which: Off-balance-sheet exposures	2,599	273,868	569	-	-	-	-32	-50	18	-	275,898

(*) Includes the specific credit risk adjustments on non-performing assets and portfolio adjustments on performing assets.

(**) The reference period is the second half of 2020. The amounts refer to existing positions at the end of the reporting period.

(***) Net adjustments (+) or recoveries (-) referring to the second half of 2020. The amounts refer to existing positions at the end of the reporting period.

(****) With regard to the standardised approach, the gross value of defaulted exposures may be broken down as follows by original portfolio (prior to classification as defaulted): 3 million euro attributable to the Central governments and central banks portfolio, 18 million euro attributable to the Public sector entities portfolio, 905 million euro attributable to the Exposures secured by real estate property portfolio, 1,567 million euro attributable to the Corporates portfolio, 1,494 million euro attributable to the Retail portfolio, 11 million euro attributable to the Regional governments or local authorities portfolio, 36 million euro attributable to the Institutions portfolio and 182 million euro attributable to the Collective investments undertakings portfolio. Moreover, the portfolio of "Items associated with particularly high risk" includes gross non-performing exposures for 13 million euro.

(*****) In addition to Loans, the caption includes other items that have been included in credit risk from a prudential standpoint.

Please note that the values shown in the table include revocable margins.

The consolidated aggregate of the performing and non-performing exposures, in net values, amounted to 950 billion euro, of which 781 billion euro attributable to Intesa Sanpaolo (ISP) and 169 billion euro to UBI. In the interests of immediate continuity and comparability with the previous company reports, the trends and main changes during the half-year for the ISP Group, net of the former UBI Group, are detailed below. The trends and main changes relating to the UBI Group are provided at the end of this section.
With regard to ISP net of the former UBI Group, as at December 2020, the performing portfolio showed an increase compared to June 2020 (+2.3% in gross values and +1.8% in net values), attributable to the performance of the Loans component (+32.1 billion euro), which recorded substantial growth compared to the trend in the first half of 2020, partially offset by the Securities component (-15.7 billion euro). The growth was driven by lending to customers, boosted by the measures adopted by the Authorities to deal with the economic impacts of the COVID-19 crisis, both through government guarantee schemes to preserve market liquidity conditions and business continuity for companies, and through the widespread use of moratoria. More specifically, there was considerable growth in retail loans (+4.8 billion euro), accompanied by a boost to the provision of advances and loans to businesses, which was reflected in the growth in “Loans to corporates” (+3.1 billion euro). The changes in deposits and current accounts also contributed to the increase (+28.3 billion euro), almost entirely attributable to the rise in the level of the Reserve Requirement held with the Bank of Italy, against a decrease for Securities (-15.7 billion euro) and a reduction for commitments and other loans without repayment plans (-4.3 billion euro). The credit quality benefited from the sale of non-performing loans completed during the half-year (“REY”, “SIMBA” and “CUVEE” securitisations), continuing the incisive implementation of the de-risking strategy (-6 billion euro in carrying amount), in line with the previous half-years. The reduction in the Securities component was attributable to the sale of Eurozone and US Government Bonds. With regard to the calculation methods used to value the exposures shown in the table, the level of use of advanced approaches (66.2% of the aggregate) decreased slightly during the half-year, due to the growth in the volumes of exposures to “Central Governments and Central Banks” (+13.3 billion euro), calculated using the Standard approach, which increased as a percentage of the total aggregate from 18.5% in June 2020 to 19.8% in December 2020.
With regard to UBI, the customer performing loans portfolio (167 billion euro as at December 2020) showed modest changes, despite the growth in government-guaranteed loans (Law 662 and SACE). There was a decrease for non-performing loans, mainly as a result of a sale (1 billion euro in carrying amount), relating to exposures to SMEs (“SIRIO” securitisation). Within the “Central Governments and Central Banks” class, a strategy was pursued of reducing the banking book’s portfolio of Government Bonds (-6 billion euro) to limit the concentration risk with Sovereigns, shifting the aggregate’s components towards the Reserve Requirement and DTAs. The increase in “Equity” exposures (+0.8 billion euro) was due to the exercise of call options on the insurance companies Aviva Vita and Lombarda Vita.

Quality of non-performing exposures by geography as at 31 December 2020 (Template 5 EBA GL 2018/10)

(millions of euro)

		GROSS CARRYING VALUE				ACCUMULATED IMPAIRMENT	PROVISIONS ON OFF-BALANCE-SHEET COMMITMENTS AND FINANCIAL GUARANTEES GIVEN	ACCUMULATED NEGATIVE CHANGES IN FAIR VALUE DUE TO CREDIT RISK ON NON-PERFORMING EXPOSURES
		Total	*Of which non-performing*		*Of which subject to impairment*			
				Of which defaulted				
1	**ON-BALANCE-SHEET EXPOSURES**	**598,128**	***21,351***	***21,351***	***596,032***	**13,255**		**28**
2	Italy	408,872	*19,382*	*19,382*	*407,168*	11,377		28
3	United States	19,344	*23*	*23*	*19,289*	61		-
4	United Kingdom	22,571	*2*	*2*	*22,522*	48		-
5	France	17,831	*56*	*56*	*17,831*	14		-
6	Spain	15,957	*3*	*3*	*15,957*	16		-
7	Slovakia	14,446	*407*	*407*	*14,446*	323		-
8	Germany	10,606	*55*	*55*	*10,606*	52		-
9	Luxembourg	5,492	*2*	*2*	*5,466*	23		-
10	Croatia	8,894	*495*	*495*	*8,894*	384		-
11	Ireland	3,838	*9*	*9*	*3,838*	22		-
12	Netherlands	3,457	*-*	*-*	*3,442*	8		-
13	Russia	5,367	*36*	*36*	*5,367*	47		-
14	Egypt	5,413	*118*	*118*	*5,413*	121		-
15	Hungary	5,318	*125*	*125*	*5,162*	99		-
16	Serbia	4,761	*103*	*103*	*4,759*	142		-
17	Qatar	4,913	*-*	*-*	*4,913*	1		-
18	Other Countries	41,048	*535*	*535*	*40,959*	517		-
19	**OFF-BALANCE-SHEET EXPOSURES**	**289,804**	***2,607***	***2,607***			**598**	
20	Italy	180,417	*2,502*	*2,502*			447	
21	United States	16,653	*11*	*11*			7	
22	United Kingdom	7,326	*-*	*-*			8	
23	France	10,333	*5*	*5*			1	
24	Spain	5,025	*1*	*1*			7	
25	Slovakia	3,535	*18*	*18*			13	
26	Germany	5,887	*4*	*4*			5	
27	Luxembourg	6,619	*1*	*1*			5	
28	Croatia	2,243	*37*	*37*			30	
29	Ireland	5,428	*-*	*-*			18	
30	Netherlands	4,882	*-*	*-*			2	
31	Russia	1,607	*-*	*-*			1	
32	Egypt	1,395	*5*	*5*			8	
33	Hungary	1,335	*2*	*2*			7	
34	Serbia	1,279	*4*	*4*			4	
35	Qatar	1,070	*-*	*-*			-	
36	Other Countries	34,770	*17*	*17*			35	
37	**TOTAL**	**887,932**	***23,958***	***23,958***	***596,032***	**13,255**	**598**	**28**

This table only includes countries towards which the Group has on- and off-balance sheet exposures that exceed the threshold of 5.9 billion euro shown in descending order of overall exposure (which represents around 90% of the total exposure).
The total on-balance sheet exposures amounting to 598,128 million euro include 2,096 million euro of exposures not subject to impairment. The geographical breakdown as at 31 December 2020 did not change significantly compared to June 2020. In this regard, there was an increase in the weight for Italy (around 4.8%) due to the acquisition of the UBI Group.

Credit quality of non-performing and performing exposures by past due days as at 31 December 2020 (Template 3 EBA GL 2018/10)

This table reports the gross values of on- and off-balance sheet exposures by risk status. For the on-balance sheet exposures, the table shows the breakdown by past-due band.

(millions of euro)

		GROSS CARRYING VALUES											
		PERFORMING EXPOSURES			NON-PERFORMING EXPOSURES								
		Total	Not past due or Past due ≤ 30 days	Past due > 30 days ≤ 90 days	**Total**	Unlikely to pay that are not past due or past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 year ≤ 5 years	Past due > 5 year ≤ 7 years	Past due > 7 years	*Of which defaulted / impaired*
1	**Loans and advances**	**469,098**	**467,484**	**1,614**	**21,218**	**4,260**	**606**	**1,620**	**3,034**	**4,595**	**2,925**	**4,178**	***21,218***
2	Central banks	2,748	2,748	-	-	-	-	-	-	-	-	-	-
3	General governments	17,417	16,941	476	309	35	-	2	39	14	1	218	*309*
4	Credit institutions	17,883	17,882	1	83	28	-	51	-	3	-	1	*83*
5	Other financial corporations	50,247	50,243	4	615	96	103	106	77	90	111	32	*615*
6	Non-financial corporations	211,844	211,330	514	15,320	3,030	275	1,017	2,263	3,253	2,268	3,214	*15,320*
7	*Of which SMEs*	*83,261*	*83,053*	*208*	*10,138*	*1,826*	*168*	*549*	*1,351*	*2,106*	*1,422*	*2,716*	*10,138*
8	Households	168,959	168,340	619	4,891	1,071	228	444	655	1,235	545	713	*4,891*
9	**Debt securities**	**107,679**	**107,668**	**11**	**133**	**14**	**-**	**-**	**24**	**76**	**15**	**4**	***133***
10	Central banks	38	38	-	-	-	-	-	-	-	-	-	-
11	General governments	77,211	77,208	3	19	6	-	-	-	5	4	4	*19*
12	Credit institutions	8,061	8,053	8	-	-	-	-	-	-	-	-	-
13	Other financial corporations	16,438	16,438	-	78	8	-	-	-	70	-	-	*78*
14	Non-financial corporations	5,931	5,931	-	36	-	-	-	24	1	11	-	*36*
15	**Off-balance-sheet exposures**	**287,197**			**2,607**								***2,607***
16	Central banks	1,883			-								-
17	General governments	10,980			6								*6*
18	Credit institutions	33,325			8								*8*
19	Other financial corporations	32,619			27								*27*
20	Non-financial corporations	192,301			2,495								*2,495*
21	Households	16,089			71								*71*
22	**TOTAL**	**863,974**	**575,152**	**1,625**	**23,958**	**4,274**	**606**	**1,620**	**3,058**	**4,671**	**2,940**	**4,182**	***23,958***

As shown in the table above, the gross NPE ratio as at 31 December 2020 is 4.33%, down from 6.92% as at 30 June 2020, due to the progressive reduction in non-performing exposures, also as a result of the de-risking transactions. This ratio is calculated in accordance with EBA GL 2018/10, i.e. the ratio of the gross value of non-performing loans and advances to the gross value of total loans and advances.

The acquisition of the UBI Group resulted in the following increases in gross carrying values:

- Performing and non-performing “Loans and advances” of 60,027 million euro and 444 million euro, respectively;
- Performing and non-performing “Debt securities” of 13,441 million euro and 9 million euro, respectively;
- Performing and non-performing “Off-balance sheet exposures” of 47,478 million euro and 390 million euro, respectively.

In addition, there was a reduction of around 9 billion euro in gross non-performing exposures compared to 30 June 2020, mainly due to de-risking transactions carried out in the second half of 2020. Those transactions also contributed to the reduction of around 4 billion euro for the exposures allocated to the “Past due > 7 years” band.

Performing and non-performing exposures and related provisions as at 31 December 2020 (Template 4 EBA GL 2018/10) *(Table 1 of 2)*

(millions of euro)

		GROSS CARRYING VALUE OF PERFORMING AND NON-PERFORMING EXPOSURES					
		Performing exposures			Non-performing exposures		
		Total	*Of which stage 1*	*Of which stage 2*	**Total**	*Of which stage 2*	*Of which stage 3*
1	**Loans and advances**	**469,098**	***396,022***	***71,969***	**21,218**	**-**	***21,111***
2	Central banks	2,748	*2,748*	*-*	-	-	-
3	General governments	17,417	*13,097*	*4,313*	309	-	*309*
4	Credit institutions	17,883	*16,925*	*933*	83	-	*83*
5	Other financial corporations	50,247	*45,490*	*4,578*	615	-	*589*
6	Non-financial corporations	211,844	*166,728*	*44,383*	15,320	-	*15,240*
7	*Of which SMEs*	*83,261*	*62,228*	*20,868*	*10,138*	-	*10,087*
8	Households	168,959	*151,034*	*17,762*	4,891	-	*4,890*
9	**Debt securities**	**107,679**	***97,816***	***8,982***	**133**	**-**	***133***
10	Central banks	38	-	*38*	-	-	-
11	General governments	77,211	*72,312*	*4,898*	19	-	*19*
12	Credit institutions	8,061	*7,156*	*905*	-	-	-
13	Other financial corporations	16,438	*13,450*	*2,114*	78	-	*78*
14	Non-financial corporations	5,931	*4,898*	*1,027*	36	-	*36*
15	**Off-balance-sheet exposures**	**287,197**	***232,854***	***54,343***	**2,607**	**-**	***2,607***
16	Central banks	*1,883*	*1,848*	*34*	-	-	-
17	General governments	10,980	*9,573*	*1,407*	6	-	*6*
18	Credit institutions	33,325	*31,769*	*1,555*	8	-	*8*
19	Other financial corporations	32,619	*26,747*	*5,873*	27	-	*27*
20	Non-financial corporations	192,301	*149,196*	*43,105*	2,495	-	*2,495*
21	Households	16,089	*13,721*	*2,369*	71	-	*71*
22	**TOTAL**	**863,974**	***726,692***	***135,294***	**23,958**	**-**	***23,851***

Performing and non-performing exposures and related provisions as at 31 December 2020 (Template 4 EBA GL 2018/10) *(Table 2 of 2)*

(millions of euro)

		ACCUMULATED IMPAIRMENT, ACCUMULATED NEGATIVE CHANGES IN FAIR VALUE DUE TO CREDIT RISK AND PROVISIONS							COLLATERALS AND FINANCIAL GUARANTEES RECEIVED	
		Performing exposures			Non-performing exposures					
		Total	*Of which stage 1*	*Of which stage 2*	Total	*Of which stage 2*	*Of which stage 3*	ACCUMULATED WRITE-OFF	On performing exposures	On non-performing exposures
1	**Loans and advances**	**2,846**	***829***	***2,017***	**10,197**	**-**	***10,169***	**6,532**	**282,850**	**8,304**
2	Central banks	2	*2*	*-*	-	-	*-*	-	-	-
3	General governments	43	*14*	*29*	129	-	*129*	1	2,876	3
4	Credit institutions	22	*18*	*4*	18	-	*18*	4	6,175	-
5	Other financial corporations	150	*56*	*95*	307	-	*295*	114	22,849	198
6	Non-financial corporations	1,706	*481*	*1,224*	7,906	-	*7,890*	5,987	110,231	5,677
7	*Of which SMEs*	*942*	*221*	*721*	*5,084*	-	*5,074*	*3,843*	*62,643*	*4,337*
8	Households	923	*258*	*665*	1,837	-	*1,837*	426	140,719	2,426
9	**Debt securities**	**139**	***62***	***77***	**101**	**-**	***101***	**-**	**1,003**	**-**
10	Central banks	4	*-*	*4*	-	-	*-*	-	-	-
11	General governments	61	*32*	*29*	2	-	*2*	-	-	-
12	Credit institutions	9	*3*	*6*	-	-	*-*	-	-	-
13	Other financial corporations	43	*20*	*23*	77	-	*77*	-	973	-
14	Non-financial corporations	22	*7*	*15*	22	-	*22*	-	30	-
15	**Off-balance-sheet exposures**	**283**	***129***	***154***	**315**	**-**	***315***	**-**	**50,421**	**527**
16	Central banks	-	*-*	*-*	-	-	*-*	-	-	-
17	General governments	6	*3*	*3*	3	-	*3*	-	1,297	-
18	Credit institutions	2	*2*	*-*	-	-	*-*	-	3,528	-
19	Other financial corporations	48	*25*	*23*	2	-	*2*	-	10,905	1
20	Non-financial corporations	195	*85*	*110*	296	-	*296*	-	29,814	507
21	Households	32	*14*	*18*	14	-	*14*	-	4,877	19
22	**TOTAL**	**3,268**	***1,020***	***2,248***	**10,613**	**-**	***10,585***	**6,532**	**334,274**	**8,831**

The exposures relating to “Loans and advances” and “Debt securities” also include exposures not subject to impairment.
The gross value of the exposures reflects the increases related to the acquisition of the UBI Group as detailed in the notes at the foot of Table 3 (EBA GL 2018/10).
For the caption “Loans and advances”, compared to June 2020, there was a reduction in the gross values for the non-performing exposures, as a result of the de-risking operations already mentioned, and for the performing exposures there was an increase in guarantees received (+14.9 billion euro, net of the increase of 38.9 billion euro due to the entry of the UBI Group), which was partly attributable to the public guarantee schemes implemented by the authorities in relation to the new liquidity granted to deal with the economic impacts of the COVID-19 health crisis.
For the caption “Debt securities”, compared to June 2020, there was a decrease in performing exposures of 3,186 million euro as a result of the offsetting effect of the increase related to the acquisition of the UBI Group (+13,441 million euro) and the reduction mainly attributable to government bonds (-16,625 million euro).
Performing off-balance sheet exposures recorded an increase of 27,560 million euro compared to June 2020, with around 47,478 million euro attributable to the acquisition of the UBI Group, offset by a decrease (-19,918 million euro) mainly due to transactions that were still to be settled as at 30 June 2020.

Credit quality of loans and advances by industry as at 31 December 2020 (Template 6 EBA GL 2018/10)

The table below shows the gross exposures and related accumulated impairment on loans and advances to non-financial companies by industry.

(millions of euro)

		GROSS CARRYING VALUE				ACCUMULATED IMPAIRMENT	ACCUMULATED NEGATIVE CHANGES IN FAIR VALUE DUE TO CREDIT RISK ON NON-PERFORMING EXPOSURES
		Total	*Of which non-performing*		*Of which subject to impairment*		
				Of which defaulted			
1	Agriculture, forestry and fishing	4,218	*379*	*379*	*4,201*	251	-
2	Mining and quarrying	4,489	*163*	*163*	*4,489*	140	-
3	Manufacturing	67,917	*4,149*	*4,149*	*67,694*	2,719	-
4	Electricity, gas, steam and air conditioning supply	12,816	*224*	*224*	*12,808*	224	-
5	Water supply; sewerage, waste management and remediation activities	2,182	*93*	*93*	*2,183*	77	-
6	Construction	17,494	*3,315*	*3,315*	*17,457*	1,866	6
7	Wholesale and retail trade; repair of motor vehicles and motorcycles	34,282	*2,046*	*2,046*	*34,249*	1,343	1
8	Transport and storage	14,878	*677*	*677*	*14,875*	512	1
9	Accommodation and food service activities	7,434	*491*	*491*	*7,426*	341	2
10	Information and communication	8,068	*191*	*191*	*8,065*	128	-
11	Financial and Insurance activities	6,433	*97*	*97*	*6,417*	63	-
12	Real estate activities	19,439	*2,280*	*2,280*	*19,144*	1,186	4
13	Professional, scientific and technical activities	15,659	*573*	*573*	*15,489*	323	-
14	Administrative and support service activities	4,914	*339*	*339*	*4,914*	219	-
15	Public administration and defence, compulsory social security	1	*-*	*-*	*1*	-	-
16	Education	252	*17*	*17*	*252*	8	-
17	Human health services and social work activities	2,321	*114*	*114*	*2,320*	82	-
18	Arts, entertainment and recreation	920	*108*	*108*	*920*	58	-
19	Other services	3,447	*64*	*64*	*3,447*	58	-
20	**TOTAL**	**227,164**	***15,320***	***15,320***	***226,351***	**9,598**	**14**

The total gross exposures, amounting to 227,164 million euro, included 813 million euro of exposures not subject to impairment. The exposures increased compared to 30 June 2020 due to the acquisition of the UBI Group.

There were no significant changes in the breakdown by industry of loans and advances to non-financial companies compared to June 2020.

Changes in gross non-performing on-balance sheet exposures as at 31 December 2020 (EU CR2-B EBA GL 2016/11)

(millions of euro)

		Gross carrying value defaulted exposures
1	**Opening balance as at 31 December 2019**	**32,121**
2	Transfers from performing exposures categories	6,232
3	Return to non-defaulted status	-592
4	Amounts written off	-2,770
5	Other changes	-8,217
6	**Closing balance as at 31 December 2020**	**26,774**

Changes in adjustments to non-performing on-balance sheet exposures as at 31 December 2020 (EU CR2-A EBA GL 2016/11)

(millions of euro)

		Accumulated specific credt risk adjustments	Accumulated general credit risk adjustments
1	**Opening balance as at 31 December 2019**	**17,308**	**-**
2	Increases due to credit risk adjustments	4,259	-
3	Decreases due to recoveries on valuation/collection	-1,152	-
4	Decreases due to sale/write-off	-2,581	-
5	Transfers between credit risks adjustments	-	-
6	Impact of exchange rate differences	-36	-
7	Business combinations	619	-
8	Other adjustments	-4,780	-
9	**Closing balance as at 31 December 2020**	**13,637**	**-**
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	68	-
11	Specific credit risk adjustments directly recorded to the statement of profit or loss	-273	-

The “Other changes” mainly include the effects of the sales carried out during the year.
The following are also allocated to this caption:
- in the table EU CR2-B, the increases in the amounts for charges;
- in the table EU CR2-A, the collections of overdue interest applied in previous years and the losses on disposal not covered by the allowance.

In the Table CR2-A, the “business combinations” refer to the acquisition of the UBI Banca Group companies.

Changes in the stock of non-performing loans and advances (Template 8 EBA GL 2018/10)

(millions of euro)

		Gross carrying value	Related net accumulated recoveries
1	**Initial stock of non-performing loans and advances**	**31,611**	
2	Inflows to non-performing portfolios	**7,092**	
3	Outflows from non-performing portfolios	**-17,485**	
4	*Outflow to performing portfolio*	*-743*	
5	*Outflow due to loan repayment, partial or total*	*-1,801*	
6	*Outflow due to collateral liquidations*	*-157*	*-136*
7	*Outflow due to taking possession of collateral*	*-25*	*-12*
8	*Outflow due to sale of instruments*	*-6,323*	*-2,003*
9	*Outflow due to risk transfers*	*-*	*-*
10	*Outflow due to write-off*	*-2,712*	
11	*Outflow due to other situations*	*-300*	
12	*Outflow due to reclassification as held for sale*	*-5,424*	
13	**Final stock of non-performing loans and advances**	**21,218**	

The table above relates solely to loans and advances and does not include assets held for sale and debt securities which had a final stock of 5,424 million euro and 132 million euro respectively. Inflows to non-performing portfolios also included other increases, among which were the business combinations.

Credit quality of forborne exposures as at 31 December 2020 (Template 1 EBA GL 2018/10)

(millions of euro)

		GROSS CARRYING VALUE OF FORBORNE EXPOSURES				ACCUMULATED IMPAIRMENT, ACCUMULATED NEGATIVE CHANGES IN FAIR VALUE DUE TO CREDIT RISK AND PROVISIONS		COLLATERALS RECEIVED AND FINANCIAL GUARANTEES RECEIVED ON FORBORNE EXPOSURES	
		Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures	Total	*Of which collateral and financial guarantees received on non-performing exposures with forbearance measures*
			Total	*Of which defaulted*	*Of which impaired*				
1	**Loans and advances**	**5,559**	**6,125**	***6,125***	***6,067***	**303**	**2,376**	**6,586**	***2,868***
2	Central banks	-	-	*-*	*-*	-	-	-	*-*
3	General governments	47	46	*46*	*46*	-	30	-	*-*
4	Credit institutions	-	79	*79*	*79*	-	14	-	*-*
5	Other financial corporations	220	222	*222*	*202*	6	171	124	*25*
6	Non-financial corporations	3,882	4,538	*4,538*	*4,500*	237	1,847	4,443	*2,033*
7	Households	1,410	1,240	*1,240*	*1,240*	60	314	2,019	*810*
8	**Debt Securities**	**-**	**-**	***-***	***-***	**-**	**-**	**-**	***-***
9	**Loan commitments given**	**444**	**201**	***201***	***201***	**4**	**6**	**151**	***48***
10	**Total**	**6,003**	**6,326**	**6,326**	**6,268**	**307**	**2,382**	**6,737**	**2,916**

The gross carrying values for forborne "Loans and advances" as at 31 December 2020 decreased compared to 30 June 2020. This was attributable to the offsetting effect of the increase related to the acquisition of the UBI Group and the decrease mainly related to the situation generated by the COVID-19 epidemic, which led to the granting of moratoria in line with EBA/GL/2020/02 that, for the performing exposures, do not meet the definition of forborne exposures. The changes in the non-performing forborne exposures were also attributable to the sales of non-performing loan portfolios that took place during the second half of 2020.
There were no significant changes in the exposures to "Debt securities" and "Loan commitments given" compared to 30 June 2020.

Quality of forbearance as at 31 December 2020 (Template 2 EBA GL 2018/10)

This table shows the loans and advances included in financial assets measured at amortised cost and subject to more than two forbearance measures, as well as the amount of the forborne loans and advances that do not meet the criteria to leave the “non-performing” category.

(millions of euro)

		GROSS CARRYING VALUE OF FORBORNE EXPOSURES
1	Having been forborne more than twice	1,499
2	Non-performing forborne loans and advances that failed to meet the non-performing exit criteria	1,241

For the indicator relating to loans and advances that failed to meet the non-performing exit criteria, there were no significant changes in their amount as a percentage of the total forborne non-performing exposures as at 31 December 2020 compared to the previous year.

Collateral valuation – loans and advances as at 31 December 2020 (Template 7 EBA GL EBA 2018/10)

The information provided below refers to the loans and advances included under financial assets, except those held for sale.

(millions of euro)

		LOANS AND ADVANCES											
		TOTAL	PERFORMING EXPOSURES		NON-PERFORMING EXPOSURES								
			Total Performing	*Of which past due > 30 days ≤ 90 days*	Total Non-performing	Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days						
							Total past due > 90 days	*Of which past due > 90 days ≤ 180 days*	*Of which: past due > 180 days ≤ 1 year*	*Of which: past due > 1 years ≤ 2 years*	*Of which: past due > 2 years ≤ 5 years*	*Of which: past due > 5 years ≤ 7 years*	*Of which: past due > 7 years*
1	**GROSS CARRYING VALUE**	**490,316**	**469,098**	***1,614***	**21,218**	**4,260**	**16,958**	***606***	***1,620***	***3,034***	***4,595***	***2,925***	***4,178***
2	**Of which secured**	**322,491**	**307,854**	***922***	**14,637**	**2,951**	**11,686**	***374***	***1,038***	***1,808***	***3,019***	***2,218***	***3,229***
3	Of which secured with immovable property	180,681	170,503	*485*	10,178	2,182	7,996	*266*	*609*	*1,044*	*2,213*	*1,647*	*2,217*
4	*Of which instruments with LTV higher than 60% and lower or equal to 80%*	*59,660*	*57,764*		*1,896*	*475*	*1,421*						
5	*Of which instruments with LTV higher than 80% and lower or equal to 100%*	*18,788*	*17,313*		*1,475*	*322*	*1,153*						
6	*Of which instruments with LTV higher than 100%*	*15,161*	*11,709*		*3,452*	*543*	*2,909*						
7	**ACCUMULATED IMPAIRMENT FOR SECURED ASSETS**	**7,845**	**1,830**	***30***	**6,015**	**725**	**5,290**	***110***	***330***	***693***	***1,298***	***1,032***	***1,827***
8	**COLLATERAL**												
9	**Of which value capped at the value of exposure**	**216,175**	**209,307**	***534***	**6,868**	**1,834**	**5,034**	***199***	***520***	***785***	***1,458***	***1,002***	***1,070***
10	Of which immovable property	171,876	165,393	*449*	6,483	1,662	4,821	*186*	*475*	*727*	*1,417*	*974*	*1,042*
11	**Of which value above the cap**	**259,820**	**245,967**	***673***	**13,853**	**3,160**	**10,693**	***419***	***1,023***	***1,726***	***3,045***	***2,217***	***2,263***
12	Of which immovable property	244,573	231,581	*639*	12,992	3,001	9,991	*386*	*922*	*1,566*	*2,935*	*2,159*	*2,023*
13	**FINANCIAL GUARANTEES RECEIVED**	**74,979**	**73,543**	***322***	**1,436**	**305**	**1,131**	***38***	***146***	***279***	***230***	***153***	***285***
14	**ACCUMULATED PARTIAL WRITE-OFF**	**6,532**	**-**	***-***	**6,532**	**315**	**6,217**	***40***	***108***	***93***	***757***	***726***	***4,493***

The reduction in non-performing exposures compared to 31 December 2019 was mainly attributable to the de-risking transactions already mentioned above.
The secured exposures increased mainly due to the acquisition of the UBI Group (41,981 million euro).

With regard to the non-performing exposures, the percentage secured positions out of the total non-performing exposures was substantially stable compared to 31 December 2019, while the percentage positions secured by immovable property out of the total secured positions increased (up from 65% to 69.5%).
With regard to the performing exposures, the percentage secured positions out of the total non-performing exposures and the percentage positions secured by immovable property out of the total secured positions were both substantially stable compared to 31 December 2019.

Collateral obtained by taking possession and execution processes – vintage breakdown as at 31 December 2020 (Template 10 EBA GL 2018/10)[13]

(millions of euro)

		DEBT BALANCE REDUCTION		TOTAL COLLATERAL OBTAINED BY TAKING POSSESSION									
		Gross carrying value	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Foreclosed ≤ 2 years		Foreclosed >2 years ≤ 5 years		Foreclosed >5 years		*Of which non-current assets held-for-sale*	
						Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	*Value at initial recognition*	*Accumulated negative changes*
1	Collateral obtained by taking possession classified as Property, plant and equipment (PP&E)	3	-	3	-								
2	Collateral obtained by taking possession other than that classified as Property, plant and equipment (PP&E)	1,942	1,214	794	210	211	4	162	25	421	181	*9*	*1*
3	*Residential immovable property*	*22*	*10*	*48*	*2*	*34*	*-*	*10*	*-*	*4*	*2*	*2*	*-*
4	*Commercial immovable property*	*482*	*148*	*363*	*54*	*133*	*3*	*146*	*20*	*84*	*31*	*7*	*1*
5	*Movable property (auto, shipping, etc.)*	*1*	*-*	*1*	*-*	*1*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
6	*Equity and debt instruments*	*1,437*	*1,056*	*382*	*154*	*43*	*1*	*6*	*5*	*333*	*148*	*-*	*-*
7	*Other*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
8	**TOTAL**	**1,945**	**1,214**	**797**	**210**	**211**	**4**	**162**	**25**	**421**	**181**	***9***	***1***

The equity and debt instruments include financial assets not previously provided by the borrower as security for pre-existing loans, but acquired under bilateral agreements with the borrower, following which the Group has derecognised the credit exposure.
The increase in values compared to 31 December 2019 is substantially attributable to the acquisition of the UBI Group.

[13] In the annual document, this table also includes the information required by Table 9 EBA GL 2018/10 and, therefore, the disclosure obligation is considered to have been met.

As already mentioned in the Introduction to this document, EBA GL 2020/07 requires institutions to disclose information, on a half-yearly basis starting from 30 June 2020, on exposures subject to the EBA Guidelines on legislative and non-legislative moratoria on loan payments applied as a result of the COVID-19 crisis and on new exposures subject to public guarantee schemes (EBA GL 2020/02). Below are the three tables based on the templates provided in Annex 3 of EBA GL 2020/07, which do not include the exposures classified as available for sale as at 31 December 2020.

Information on loans and advances subject to legislative and non-legislative moratoria (Template 1 EBA GL 2020/07) *(Table 1 of 2)*

(millions of euro)

		Performing and Non performing gross carrying amount						
		Total Performing and Non performing	Performing			Non performing		
			Total	*Of which: exposures with forbearance measures*	*Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)*	Total	*Of which: exposures with forbearance measures*	*Of which: Unlikely to pay that are not past-due or past-due <= 90 days*
1	**Loans and advances subject to moratorium**	**32,515**	**32,076**	***1,199***	***12,226***	**439**	***230***	***368***
2	of which: Households	**8,718**	**8,596**	*369*	*3,071*	**122**	*76*	*106*
3	*of which: Collateralised by residential immovable property*	***6,142***	***6,054***	*308*	*2,248*	***88***	*61*	*79*
4	of which: Non-financial corporations	**21,922**	**21,608**	*790*	*7,997*	**314**	*152*	*260*
5	*of which: Small and Medium-sized Enterprises*	***19,154***	***18,891***	*724*	*7,243*	***263***	*138*	*210*
6	*of which: Collateralised by commercial immovable property*	***11,490***	***11,309***	*603*	*4,382*	***181***	*113*	*158*

Information on loans and advances subject to legislative and non-legislative moratoria (Template 1 EBA GL 2020/07) *(Table 2 of 2)*

(millions of euro)

		Accumulated impairment, accumulated negative changes in fair value due to credit risk							Gross carrying amount of inflows to non-performing exposures
		Total Performing and Non performing	Performing			Non performing			
			Total	*Of which: exposures with forbearance measures*	*Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)*	Total	*Of which: exposures with forbearance measures*	*Of which: Unlikely to pay that are not past-due or past-due <= 90 days*	
1	**Loans and advances subject to moratorium**	**650**	**538**	***61***	***473***	**112**	***56***	***92***	**91**
2	of which: Households	**178**	**151**	*17*	*137*	**27**	*16*	*21*	**16**
3	*of which: Collateralised by residential immovable property*	***110***	***94***	*13*	*87*	***16***	*12*	*14*	***8***
4	of which: Non-financial corporations	**459**	**374**	*43*	*326*	**85**	*39*	*70*	**75**
5	*of which: Small and Medium-sized Enterprises*	***413***	***336***	*40*	*296*	***77***	*37*	*63*	***39***
6	*of which: Collateralised by commercial immovable property*	***295***	***251***	*34*	*222*	***44***	*28*	*39*	***30***

The Intesa Sanpaolo Group supported the legislative and non-legislative measures adopted in the various countries where it operates in order to combat the crisis generated by the COVID-19 pandemic.
Within the non-financial companies, the sectors most affected by these measures were: manufacturing, real estate, wholesale and retail trade, and accommodation and food services.

Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria (Template 2 EBA GL 2020/07)

(millions of euro)

		NUMBER OF OBLIGORS	GROSS CARRYING AMOUNT							
			Total			Residual maturity of moratoria				
				Of which: legislative moratoria	*Of which: expired*	<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
1	**Loans and advances for which moratorium was offered**	**1,041,762**	**64,372**							
2	**Loans and advances subject to moratorium (granted)**	**963,612**	**60,335**	***31,455***	***27,820***	**26,166**	**2,969**	**748**	**675**	**1,957**
3	of which: Households		**23,580**	*6,481*	*14,862*	5,528	2,592	159	288	151
4	*of which: Collateralised by residential immovable property*		***17,019***	*3,435*	*10,877*	*3,362*	*2,230*	*148*	*282*	*120*
5	of which: Non-financial corporations		**34,276**	*24,741*	*12,354*	19,174	374	188	386	1,800
6	*of which: Small and Medium-sized Enterprises*		***25,971***	*21,656*	*6,817*	*17,099*	*184*	*78*	*306*	*1,487*
7	*of which: Collateralised by commercial immovable property*		***16,712***	*12,044*	*5,222*	*9,330*	*322*	*166*	*315*	*1,357*

Around 92% of the moratoria granted and still in force as at 31 December 2020 had a residual maturity within the following 6 months.

Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis (Template 3 EBA GL 2020/07)

(millions of euro)

		GROSS CARRYING AMOUNT		MAXIMUM AMOUNT OF THE GUARANTEE THAT CAN BE CONSIDERED	GROSS CARRYING AMOUNT
		Total	*Of which: forborne*	Public guarantees received	Inflows to non-performing exposures
1	**Newly originated loans and advances subject to public guarantee schemes**	**31,961**	***43***	**27,710**	**12**
2	of which: Households	2,521			1
3	*of which: Collateralised by residential immovable property*	-			-
4	of which: Non-financial corporations	29,323	*41*	25,161	11
5	*of which: Small and Medium-sized Enterprises*	*17,244*			*10*
6	*of which: Collateralised by commercial immovable property*	*21*			-

As at 31 December 2020, a total of 32 billion euro of new liquidity was provided to customers, with around 28 billion euro covered by government guarantees, of which 63% had a residual maturity of more than 5 years. The sectors most affected by these measures were: manufacturing and wholesale and retail trade.
As at 31 December 2020, almost all the exposures were performing and the level of forborne exposures was also very low (0.13%).

Section 8 - Credit risk: disclosures on portfolios subject to the standardised approach

Qualitative disclosure

External agencies used

For the determination of the risk weightings under the standardised approach, the Intesa Sanpaolo Group uses the ratings of the following external agencies for all of its portfolios subject to the reporting: Standard & Poor's ratings Services, Moody's Investors Service, Fitch Ratings, DBRS Morningstar, DBRS Ratings Limited, and Cerved Group S.p.A. These agencies are valid for all Group banks[14].

It should be noted that, for the purposes of determining the capital requirement, in compliance with the regulations, if there are two ratings for the same customer, the most prudential of the two is used to determine its capital requirements; when three ratings are available, the middle rating is adopted, and when all ratings are available, the second-best is taken.

List of the external Rating Agencies

Portfolio	ECA/ECAI				
Exposures to or secured by governments and central banks (*)	Fitch Ratings	Moody's Investors Service	Standard & Poor's Rating Services	DBRS Morningstar	
Exposures to or secured by international organisations(*)	Fitch Ratings	Moody's Investors Service	Standard & Poor's Rating Services	DBRS Morningstar	
Exposures to or secured by multilateral development banks (*)	Fitch Ratings	Moody's Investors Service	Standard & Poor's Rating Services	DBRS Morningstar	
Exposures to or secured by corporates and other entities (*)	Fitch Ratings	Moody's Investors Service	Standard & Poor's Rating Services	DBRS Morningstar	Cerved Group S.p.A.
Exposures to UCI (*)	Fitch Ratings	Moody's Investors Service	Standard & Poor's Rating Services	DBRS Morningstar	
Position on securitisations with short-term rating	Fitch Ratings	Moody's Investors Service	Standard & Poor's Rating Services	DBRS Ratings Limited	
Position on securitisations different from those with short-term rating	Fitch Ratings	Moody's Investors Service	Standard & Poor's Rating Services	DBRS Ratings Limited	

(*) Ratings characteristics: solicited/unsolicited.

Process of transfer of the issuer or issue credit ratings to comparable assets not included in the regulatory trading book

In compliance with Regulation (EU) 575/2013 (CRR), the criteria have been defined, as described below, for the use of issue and issuer credit ratings for the assessment of exposure risks and guarantee mitigation. The risk weighting assigned to the exposures has been determined, in general for all the regulatory portfolios, using the issue rating as the primary measure and then, when this is not available and the conditions established by the Regulation are met, through the use of the issuer rating. The same priority has been used in general for all the regulatory portfolios to determine the eligibility of the guarantees and the regulatory volatility corrections to be allocated. For the unrated issues of supervised issuers, the extension of the eligibility is strictly subject to the conditions established by the regulations (listing in regulated markets, non-subordinated securities, and issues of the same rank associated with classes 1 to 3 of the credit quality rating scale).

[14] The agency DBRS Ratings Limited, which is part of the DBRS Morningstar Group was only used by the former UBI Banca Group solely for the securitisations portfolio. The agency Cerved Group Spa was used solely for the product companies UBI Leasing and UBI Factor of the former UBI Group for the Exposures to corporates and other entities portfolio.

Quantitative disclosure

In this Section, each regulatory portfolio provided for by regulations under the standardised approach is broken down as follows:

- amount of on-balance sheet and off-balance sheet exposures, "without" the Credit Risk Mitigation (CRM) effect, which does not take into account the decrease in exposure or portfolio transfer arising from application of collateral and personal guarantees and before the application of the Credit Conversion Factors (CCF) to off-balance sheet exposures;
- amount of the same exposures "with" the Credit Risk Mitigation effect and after the application of the Credit Conversion Factors. The portfolio transfer resulting from the application of risk mitigation in the case of personal guarantees may also take place from portfolios subject to IRB approaches due to the presence of guarantors subject to the Standardised Approach.

The above information is listed in the "with" and "without" credit risk mitigation tables and associated with the risk weightings defined by the current Prudential Supervisory regulations.

The column "Deducted" of the following tables EU CR5 and EU CR5bis reports all the exposures not considered for the purposes of determining the weighted assets, as they are directly deducted from the regulatory capital (see Own Funds).

Standardised approach - Credit risk exposure and CRM effects as at 31 December 2020 (EU CR4 EBA GL 2016/11)

(millions of euro)

	EXPOSURE CLASSES	EXPOSURES BEFORE CCF AND CRM		EXPOSURES POST CCF AND CRM		RWAS AND RWA DENSITY	
		On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
1	Central government or central banks	181,265	4,037	226,817	1,378	23,890	10%
2	Regional government or local authorities	1,133	1,150	1,322	369	451	27%
3	Public sector entities	1,564	1,387	913	392	808	62%
4	Multilateral development banks	985	40	1,238	4	-	0%
5	International organisations	619	-	619	-	-	0%
6	Institutions	7,710	5,273	7,560	411	3,101	39%
7	Corporates	36,083	16,111	26,940	4,303	28,681	92%
8	Retail	17,860	6,113	13,678	782	9,537	66%
9	Secured by mortgages on immovable property	5,779	109	5,778	51	2,161	37%
10	Exposures in default	1,690	66	1,644	23	1,839	110%
11	Exposures associated with particularly high risk	605	159	592	152	1,116	150%
12	Covered bonds	1,896	-	1,896	-	230	12%
13	Institutions and corporates with a short-term credit rating	-	-	-	-	-	0%
14	Collective investment undertaking	3,757	2,184	3,481	890	3,873	89%
15	Equity	2,657	693	2,656	693	5,599	167%
16	Other items	22,144	-	22,147	1	13,325	60%
17	**TOTAL**	**285,747**	**37,322**	**317,281**	**9,449**	**94,611**	**29%**
	TOTAL ON- AND OFF-BALANCE SHEET AMOUNTS	**323,069**		**326,730**			

The consolidated aggregate amounted to 323 billion euro before application of credit risk mitigation techniques (CRM) and credit conversion factors (CCF) and 327 billion euro after their application. In the interests of immediate continuity and comparability with the previous company reports, the trends and main changes during the half-year for the ISP Group, net of the former UBI Group, are detailed below. The trends and main changes relating to the UBI Group are provided at the end of this section.

ISP contributed 265 billion euro to the aggregate post CRM/CCF (261 billion euro before CRM/CCF). In particular, there was a significant increase in the second half of the year of around +30 billion euro post CRM/CCF (+11.5 billion euro before CRM/CCF), mainly attributable to growth in the "Central Governments and Central Banks" portfolio (+29 billion euro post CRM/CCF and +13.3 billion euro before CRM/CCF) which offset the loans granted to "Corporates" (-1.5 billion euro post CRM/CCF and -3.2 billion euro before CRM/CCF) backed by a government guarantee. The increase in the aggregate was also driven to a lesser extent by the "Collective Investment Undertakings" class (+1 billion euro post CRM/CCF and +1.7 billion euro before CRM/CCF) and the "Other items" portfolio (+1.4 billion euro before/post CRM/CCF), which incorporates the book value of the exposure of leased assets according to IFRS 16, as well as the effects of macro hedging on core deposits. The reconfiguration of the portfolios, with an increase in aggregates with lower prudential weighting levels, resulted in a significant reduction in the risk profile (RWA density -3.9% over the half-year and -9.6% over the year).

The performance was similar for UBI, which contributed 62 billion euro before CRM/CCF and 61.5 billion euro after CRM/CCF: the exposure after the effects of CCF/CRM worsened in terms of RWA density (+6.1%) with a rise of 2.4 billion

euro, mainly attributable to the “Central Governments and Central Banks” class, driven by the increase in government guaranteed exposures (under Law 662 and SACE) and increases in the Reserve Requirement and DTAs, partially offset by the reduction due to the sale of government bonds, while the increase in the “Equities” class (+0.8 billion euro) was attributable to the exercise of options on the insurance companies Aviva and Lombarda Vita.

Standardised approach - Exposures post CCF and CRM as at 31 December 2020 (EU CR5 EBA GL 2016/11) *(Table 1 of 2)*

(millions of euro)

	EXPOSURE CLASSES	RISK WEIGHT								
		0%	2%	4%	10%	20%	35%	50%	70%	75%
1	Central governments or central banks	207,404	-	-	-	1,089	-	2,089	-	-
2	Regional government or local authorities	-	-	-	-	1,544	-	1	-	-
3	Public sector entities	25	-	-	-	570	-	31	-	-
4	Multilateral development banks	1,242	-	-	-	-	-	-	-	-
5	International organisations	619	-	-	-	-	-	-	-	-
6	Institutions	-	74	-	-	4,714	-	2,022	-	-
7	Corporates	-	-	-	-	952	-	1,944	58	-
8	Retail	-	-	-	-	-	1,820	-	-	12,640
9	Secured by mortgages on immovable property	-	-	-	-	-	3,718	2,111	-	-
10	Exposures in default	-	-	-	-	-	-	-	-	-
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-
12	Covered bonds	-	-	-	1,489	407	-	-	-	-
13	Institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	-	-
14	Collective investment undertakings	-	-	-	-	-	-	13	-	-
15	Equity	-	-	-	-	-	-	-	-	-
16	Other items	7,491	-	-	-	1,664	-	-	-	-
17	**TOTAL**	**216,781**	**74**	**-**	**1,489**	**10,940**	**5,538**	**8,211**	**58**	**12,640**

Standardised approach - Exposures post CCF and CRM as at 31 December 2020 (EU CR5 EBA GL 2016/11)
(Table 2 of 2)

(millions of euro)

	EXPOSURE CLASSES	RISK WEIGHT							TOTAL	*OF WHICH UNRATED*
		100%	150%	250%	370%	1250%	Others	Deducted		
1	Central governments or central banks	14,244	36	3,333	-	-	-	1,785	**228,195**	*4,884*
2	Regional government or local authorities	146	-	-	-	-	-	-	**1,691**	*1,265*
3	Public sector entities	679	-	-	-	-	-	-	**1,305**	*962*
4	Multilateral development banks	-	-	-	-	-	-	-	**1,242**	*37*
5	International organisations	-	-	-	-	-	-	-	**619**	-
6	Institutions	1,160	1	-	-	-	-	-	**7,971**	*3,279*
7	Corporates	27,884	405	-	-	-	-	255	**31,243**	*23,126*
8	Retail	-	-	-	-	-	-	-	**14,460**	*14,397*
9	Secured by mortgages on immovable property	-	-	-	-	-	-	-	**5,829**	*5,318*
10	Exposures in default	1,323	344	-	-	-	-	-	**1,667**	*1,651*
11	Exposures associated with particularly high risk	-	744	-	-	-	-	-	**744**	*744*
12	Covered bonds	-	-	-	-	-	-	-	**1,896**	*627*
13	Institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	**-**	-
14	Collective investment undertakings	3,019	536	-	-	-	803	-	**4,371**	*4,348*
15	Equity	1,849	-	1,500	-	-	-	-	**3,349**	*3,349*
16	Other items	12,993	-	-	-	-	-	-	**22,148**	*22,069*
17	**TOTAL**	**63,297**	**2,066**	**4,833**	**-**	**-**	**803**	**2,040**	**326,730**	***86,056***

The consolidated aggregate amounted to 326.7 billion euro after application of credit risk mitigation techniques (CRM) and credit conversion factors (CCF), of which 265.2 billion euro attributable to ISP and 61.5 billion euro to UBI.
In the interests of immediate continuity and comparability with the previous company reports, the trends and main changes during the half-year for the ISP Group, net of the former UBI Group, are detailed below. The trends and main changes relating to the UBI Group are provided at the end of this section.
With regard to ISP, the breakdown of exposure classes by risk weight shows a significant decrease in RWA density (-3.9% on the half-year), down to 26.6%. The change was substantially due to the increase (+30 billion euro) in the relative weighting (from 63.6% to 68.2%) of exposures with zero weighting, within the “Central Governments and Central Banks” class; changes in the other weighting classes were minor.
With regard to UBI, on the other hand, there was a worsening in the RWA density (+6.1%), which stood at 38.9%, mainly due to the increase in the DTA component (250% weighting) and in “Equities” (250% weighting).

Standardised approach - Exposures before CCF and CRM as at 31 December 2020 (EU CR5 bis) *(Table 1 of 2)*

(millions of euro)

	EXPOSURE CLASSES	RISK WEIGHT								
		0%	2%	4%	10%	20%	35%	50%	70%	75%
1	Central governments or central banks	162,539	-	-	-	1,089	-	1,590	-	-
2	Regional government or local authorities	-	-	-	-	2,133	-	1	-	-
3	Public sector entities	34	-	-	-	1,323	-	98	-	-
4	Multilateral development banks	1,025	-	-	-	-	-	-	-	-
5	International organisations	619	-	-	-	-	-	-	-	-
6	Institutions	-	74	-	-	9,100	-	2,259	-	-
7	Corporates	-	-	-	-	927	-	2,595	-	-
8	Retail	-	-	-	-	-	1,820	-	-	22,153
9	Secured by mortgages on immovable property	-	-	-	-	-	3,728	2,160	-	-
10	Exposures in default	-	-	-	-	-	-	-	-	-
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-
12	Covered bonds	-	-	-	1,489	407	-	-	-	-
13	Institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	-	-
14	Collective investment undertakings	-	-	-	-	-	-	13	-	-
15	Equity	-	-	-	-	-	-	-	-	-
16	Other items	7,487	-	-	-	1,664	-	-	-	-
17	**TOTAL**	**171,704**	**74**	**-**	**1,489**	**16,643**	**5,548**	**8,716**	**-**	**22,153**

Standardised approach - Exposures before CCF and CRM as at 31 December 2020 (EU CR5 bis) *(Table 2 of 2)*

	EXPOSURE CLASSES	RISK WEIGHT							TOTAL	*OF WHICH UNRATED*
		100%	150%	250%	370%	1250%	Others	Deducted		
1	Central governments or central banks	16,496	255	3,333	-	-	-	1,785	**185,302**	*5,396*
2	Regional government or local authorities	149	-	-	-	-	-	-	**2,283**	*1,982*
3	Public sector entities	1,496	-	-	-	-	-	-	**2,951**	*2,520*
4	Multilateral development banks	-	-	-	-	-	-	-	**1,025**	*-*
5	International organisations	-	-	-	-	-	-	-	**619**	*-*
6	Institutions	1,534	16	-	-	-	-	-	**12,983**	*4,580*
7	Corporates	48,214	458	-	-	-	-	255	**52,194**	*41,818*
8	Retail	-	-	-	-	-	-	-	**23,973**	*23,909*
9	Secured by mortgages on immovable property	-	-	-	-	-	-	-	**5,888**	*5,378*
10	Exposures in default	1,391	365	-	-	-	-	-	**1,756**	*1,716*
11	Exposures associated with particularly high risk	-	764	-	-	-	-	-	**764**	*764*
12	Covered bonds	-	-	-	-	-	-	-	**1,896**	*627*
13	Institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	**-**	*-*
14	Collective investment undertakings	4,589	536	-	-	-	803	-	**5,941**	*5,917*
15	Equity	1,850	-	1,500	-	-	-	-	**3,350**	*3,350*
16	Other items	12,993	-	-	-	-	-	-	**22,144**	*22,080*
17	**TOTAL**	**88,712**	**2,394**	**4,833**	**-**	**-**	**803**	**2,040**	**323,069**	***120,037***

Section 9 - Credit risk: disclosures on portfolios subject to IRB approaches

Qualitative disclosure

Credit risk – disclosures on portfolios subject to IRB approaches

The rollout plan for the internal models
The supervisory regulations provide for two approaches for the calculation of the capital requirement: the Standardised approach and the Internal Rating Based (IRB) approach, in which the risk weightings are a function of the banks' internal assessments of their borrowers. The IRB approach is in turn divided into a Foundation Internal Rating Based (FIRB) approach and an Advanced Internal Rating Based (AIRB) approach that differ in the risk parameters that banks are required to estimate. Under the foundation approach, banks use their own PD estimates and regulatory values for the other risk parameters, whereas under the advanced approach the latter are also estimated internally. Given that the rating systems for retail exposures must reflect both the borrower risk and the specific risk of the transaction, in this case there is no distinction between the foundation and the advanced approach.

As already set out in the first Section of this document ("Basel 3 regulations" paragraph), the coverage of the portfolios of the Italian banks of the "former Intesa Sanpaolo" scope with internal models is now complete, while the rollout for the "former UBI Banca" Italian subsidiaries may be revised in the coming months in light of the strategic choices still being made regarding their process of integration. As a result, the activities planned for the coming years will essentially be aimed at achieving the objectives of the "IRB regulatory roadmap", focused on updating and re-estimating the models to periodically update the time series data, adopting the recent regulatory provisions (e.g. EBA Guidelines, new definition of default, TRIM guide to internal models) and implementing the corrective measures imposed within the permissions given as well as the strategic Return to Compliance Plan following the acquisition of the UBI Banca Group.
With regard to the International Subsidiaries, the commitments in the plan for the coming years mainly envisage the rollout of the internal models for credit risk. For the Slovenian subsidiary, Intesa Sanpaolo Bank and the Slovak subsidiary VUB, the activities will also focus on updating and re-estimating the models currently already validated by the Supervisor.

However, the rollout plan does not include certain exposures, which are the subject of a request for authorisation for the permanent partial use of the standardised approach. These relate to the following in particular:
- exposures to central governments and central banks;
- exposures to the Banking Group;
- exposures to minor operational units;
- non-significant exposure classes in terms of size and level of risk (this category includes loans to non-banking financial institutions).

Description of the structure, use, management processes and control mechanisms of the internal rating systems of the Corporate, Retail and Institutions segment

Structure of the internal rating systems (PD)
The main features of the rating systems used are as follows:
- the rating is determined at counterparty level;
- the rating is based at Group level, and is the same for each counterparty, even when it is shared by several entities of the Group;
- the definition of default used corresponds to unlikely-to-pay, bad and past due loans (see Section 7);
- the data used for the estimate relate as far as possible to the entire Group; where this is not possible, stratification criteria have been used, to render the sample as representative of the Group as possible;
- the length of the time series used for the development and calibration of the models has been determined on the basis of a compromise between the need to cover a broad timescale and the need to represent the structure of the Group for the future;
- the segmentation of the rating models has been determined in accordance with both legislation and process and regulatory criteria;
- within the segmentation identified, uniform models have been used as much as possible, although a differentiation has been made where appropriate on the basis of analytical criteria considered to be relevant (e.g. revenue, geographical area, etc.); this differentiation can occur at the development or the calibration phase;
- the models incorporate financial, performance and qualitative components. With regard to the models for the Corporate, Banks and Public Sector Entities segments, the manager must also provide an independent assessment of the counterparty's creditworthiness and, if the assessment differs from the rating, the manager must implement the override procedure. This procedure provides for the immediate confirmation of the proposed rating in the event of a conservative

override and the validation by an independent unit in the case of an improving override. The choice of giving a significant role to the human component enables the rating models to take account of all the information available, including the latest updates or data that would be difficult to incorporate into an automated model;
- the rating is reviewed at least once a year, in conjunction with the review of the loan; Intesa Sanpaolo has established procedures that increase the frequency of update when there are signs of deterioration of credit quality.

The output PD of the models is mapped on the internal Master Scale, which is broken down into a different number of classes depending on the model type.

The table below illustrates the correspondence between the (n) internal rating classes and the ratings by the major agencies: Standard & Poor's Ratings Services, Moody's Investors Service, Fitch Ratings and DBRS Morningstar. As indicated in the table, compared to the counterparties rated with Large Corporate, Regions, Banks and Retail models where there is complete correspondence with the classes of Rating Agencies, the counterparties rated with other models have a cap on the Rating and, therefore, on their reported PD.

Correspondence between internal rating classes and ratings by the major agencies

<table>
<tr><th colspan="2">External ratings of the main agencies</th><th colspan="8">Internal class</th></tr>
<tr><th rowspan="2">S&P's
Fitch
DBRS Morningstar</th><th rowspan="2">Moody's</th><th rowspan="2">Large Corporate</th><th rowspan="2">Corporate</th><th rowspan="2">Specialized Lending</th><th colspan="2">Public Entities</th><th rowspan="2">Banks</th><th rowspan="2">Sme Retail</th><th rowspan="2">Mortgage</th></tr>
<tr><th>Regions</th><th>Provinces / Municipalities</th></tr>
<tr><td>AAA</td><td>Aaa</td><td>LC_I1a</td><td>-</td><td>-</td><td>I1a</td><td>-</td><td>I1a</td><td>-</td><td>RT01</td></tr>
<tr><td rowspan="2">AA+</td><td rowspan="2">Aa1</td><td rowspan="2">LC_I1b</td><td rowspan="2">-</td><td rowspan="2">I1</td><td rowspan="2">I1b</td><td rowspan="2">-</td><td>I1b</td><td rowspan="2">-</td><td rowspan="2">RT02</td></tr>
<tr><td>I1c</td></tr>
<tr><td>AA</td><td>Aa2</td><td>LC_I1c</td><td>-</td><td>I2</td><td>I1c</td><td>-</td><td>I1d</td><td>I3</td><td>RT03</td></tr>
<tr><td>AA-</td><td>Aa3</td><td>LC_I1d</td><td>CO_I1</td><td>I3</td><td>I1d</td><td>-</td><td>I1e</td><td>I4</td><td>-</td></tr>
<tr><td>A+</td><td>A1</td><td>LC_I2</td><td>-</td><td>-</td><td>I1e</td><td>-</td><td>I1f</td><td>-</td><td>RT04</td></tr>
<tr><td>A</td><td>A2</td><td>LC_I3</td><td>CO_I2</td><td>I4</td><td>I1f</td><td>I1</td><td>I2</td><td>I5</td><td>-</td></tr>
<tr><td>A-</td><td>A3</td><td>LC_I4</td><td>CO_I3</td><td>I5</td><td>I2</td><td>I2</td><td>I3</td><td>I6</td><td>RT05</td></tr>
<tr><td rowspan="2">BBB+</td><td rowspan="2">Baa1</td><td rowspan="2">LC_I5</td><td rowspan="2">CO_I4</td><td rowspan="2">I6</td><td>I3</td><td>I3</td><td rowspan="2">I4</td><td rowspan="2">-</td><td rowspan="2">-</td></tr>
<tr><td>I4</td><td>I4</td></tr>
<tr><td>BBB</td><td>Baa2</td><td>-</td><td>CO_I5</td><td>M1</td><td>I5</td><td>I5</td><td>I5</td><td>M1</td><td>RT06</td></tr>
<tr><td>BBB-</td><td>Baa3</td><td>LC_I6</td><td>CO_I6</td><td>M2</td><td>I6</td><td>I6</td><td>I6</td><td>M2</td><td>RT07</td></tr>
<tr><td rowspan="2">BB+</td><td rowspan="2">Ba1</td><td>LC_M1</td><td>CO_M1</td><td rowspan="2">M3</td><td>M1</td><td>M1</td><td rowspan="2">M1</td><td rowspan="2">M3</td><td rowspan="2">RT08</td></tr>
<tr><td>LC_M2</td><td>CO_M2</td><td>M2</td><td>M2</td></tr>
<tr><td>BB</td><td>Ba2</td><td>LC_M3</td><td>CO_M3</td><td>M4</td><td>M3</td><td>M3</td><td>M2</td><td>M4</td><td>RT09</td></tr>
<tr><td>BB-</td><td>Ba3</td><td>LC_M4</td><td>CO_M4</td><td>R1</td><td>M4</td><td>M4</td><td>M3</td><td>R1</td><td>RT10</td></tr>
<tr><td rowspan="2">B+</td><td rowspan="2">B1</td><td>LC_R1</td><td rowspan="2">CO_R1</td><td rowspan="2">R2</td><td>R1</td><td>R1</td><td rowspan="2">R1</td><td rowspan="2">R2</td><td rowspan="2">RT11</td></tr>
<tr><td>LC_R2</td><td>R2</td><td>R2</td></tr>
<tr><td rowspan="2">B</td><td rowspan="2">B2</td><td rowspan="2">LC_R3</td><td>CO_R2</td><td>R3</td><td rowspan="2">R3</td><td rowspan="2">R3</td><td rowspan="2">R2</td><td rowspan="2">R3</td><td rowspan="2">RT12</td></tr>
<tr><td>CO_R3</td><td>R4</td></tr>
<tr><td rowspan="2">B-</td><td rowspan="2">B3</td><td rowspan="2">LC_R4</td><td rowspan="2">CO_R4</td><td rowspan="2">-</td><td rowspan="2">R4</td><td rowspan="2">R4</td><td>R3</td><td rowspan="2">-</td><td rowspan="2">RT13</td></tr>
<tr><td>R4</td></tr>
<tr><td rowspan="2">CCC</td><td rowspan="2">Caa1</td><td rowspan="2">LC_R5</td><td rowspan="2">CO_R5</td><td rowspan="2">R5</td><td rowspan="2">R5</td><td rowspan="2">R5</td><td rowspan="2">R5</td><td>R4</td><td rowspan="2">RT14</td></tr>
<tr><td>R5</td></tr>
</table>

Structure of the internal rating systems (LGD)
The LGD models are based on the concept of "Economic LGD", namely the present value of the cash flows obtained in the various phases of the recovery process net of any administrative costs directly attributable to the exposure as well as the indirect management costs incurred by the Group, and consists, in brief, of the following elements:
- estimate of a Bad Loan LGD Model: starting from the LGD observed on the portfolio, namely "Workout LGD", determined on the basis of the recoveries and costs, a regression econometric model of the LGD is estimated on variables considered to be significant for the determination of the loss associated to the Default event;
- application of the Danger Rate, a multiplying correction factor, used to recalibrate the Bad Loan LGD with the information available on the other default statuses, in order to calculate an LGD representative of all the possible default statuses and their evolution;
- application of an additional correction factor, known as "Final Settlement Component": this component is used as an add-on to the estimate recalibrated for the Danger Rate in order to consider the loss rates associated with positions not evolved to the Bad Loan status (Unlikely to pay or Past Due positions).

LGD is determined according to differentiated models, specialised by operating segment (Corporate, Retail SME, Retail, Factoring, Leasing, Banks and Public Entities).
The models are updated annually in compliance with internal and external regulations.

Use of the rating systems (PD, LGD, and EAD)
Expected Loss and Risk Weighted Assets are fundamental elements for the management, measurement and control of credit risk. These measures incorporate the effects of the exposure size (Exposure at Default - EAD), the relative riskiness of the customer (Probability of Default - PD), the presumption of loss where insolvency conditions exist - taking into account the guarantees that mitigate the assumption of risk related to the loan (Loss Given Default - LGD) - and the duration of the exposure (maturity).
The components that contribute to the determination of the Risk Weighted Assets are the key elements for the determination of the levels of the Credit Granting and Management Powers, the limits of the Credit Risk Appetite (CRA), the credit pricing, the calculation of the adjustments on performing exposures and the analytical-statistical adjustments on non-performing exposures, as well as the calculation of the economic and regulatory capital.

Credit Granting and Management Powers
The levels of Powers, set on terms of RWA, delimit the decision-making power in the granting phase, specifying the authorised professional profiles and the decision-making procedures for the loans for the individual counterparties. In particular, where the granting of loans by the Group's subsidiaries exceeds certain thresholds, a request for a "Compliance Opinion" is made to the competent bodies of the Parent Company.

Credit Risk Appetite
The Credit Risk Appetite (CRA) Framework, a specific RAF for credit risk introduced in 2015, identifies areas of growth for loans and areas to be monitored, using an approach based on ratings and other useful predictive statistical indicators, to guide lending growth by optimising the management of risk and expected loss.
The CRA limits are approved within the RAF and are continuously monitored by the Credit Risk Management Head Office Department.

Credit monitoring and management
The credit granting phase is also regulated by metrics that are complementary to the RWAs, which define coordination mechanisms and support tools for the ongoing exercise of guidance, coordination and control responsibilities, in implementation of the corporate governance provisions. In particular, the company rules include the Granting and Management Rules, which specify the methods for taking on credit risk with customers, and the Rules on Credit Strategies, which are designed to direct the development and composition of the loan portfolio towards a risk/return profile that is recognised as optimal over the medium/long-term.
The credit risk management processes also envisage the periodic review of all the credit positions by the relevant head office or local structures and the assessment of customers not only at the initial lending stage, but also on a continuous basis, by means of a monthly monitoring process that interacts with credit management and control processes and procedures to ensure timely assessment of any signs of impairment, with an impact on the level of risk of the exposures. An Early Warning System is in place for the Corporate, Retail SME, Retail and Institutions portfolios, with adaptations introduced alongside the updates to the internal rating models. The system was developed on the basis of the indicators identified in the Asset Quality Review and consists of a statistical component and a qualitative component, plus manual triggers by event. The indicators are updated on a daily basis and, when they confirm a potential anomaly in the management of the relationship the related positions are detected and reported in the Proactive Management Process.

Pricing
The objective of the calculation of the pricing of transactions is to define the suitability of the economic conditions based on the value generation with respect to the expressed riskiness and all the components that contribute to the calculation of the value, also including the costs allocated to the structures.

Financial Reporting Processes and assessment of performing and non-performing exposures
As described in detail in “Section 7 – Credit Risk: credit quality”, the internally estimated parameters are the basis for the method of collective assessment of performing exposures and the analytical-statistical valuation of non-performing exposures in accordance with IFRS 9.
Ratings are used in the preparation of the tables required by the Financial Reporting regulations relating to the breakdown by rating class.

Calculation of economic capital and value governance
The capital at risk consists of the maximum “unexpected” loss the Group could incur over a year. This is a key measure for determining the Group’s financial structure and its risk tolerance, and guiding operations, ensuring the balance between risks assumed and shareholder return. It is estimated on the basis of the current situation and also as a forecast, based on the budget assumptions and projected economic scenario.

Reporting
The rating and the LGD form the basis of the management reporting and are spread across the risks of the loan portfolio.
For management reporting, the Enterprise Risk Management Department produces the Risks Tableau de Bord on a quarterly basis. This provides an overall view of the Group’s risk position at the end of the respective quarter with reference to the combination of all the risk factors, according to the layout established by Basel 3 (Pillar 1 and Pillar 2). The main items that are analysed in the Risks Tableau de Bord are absorbed capital (regulatory vs. economic) and specific measurement criteria for each individual risk (e.g. sensitivity and expected loss) and the monitoring of limits defined within the scope of the Risk Appetite Framework.

Development of internal rating models
The structured and documented set of risk quantification methodologies, organisational management and control processes, and database organisation methods that enable the collection and processing of information relevant to risk measurement is defined as an “Internal System”.
Two types of Internal Risk Measurement Systems are identified:
– Internal systems used to determine the capital requirements of the Intesa Sanpaolo Group and to control credit, operational, market and counterparty risks (“Pillar 1” risks);
– Internal systems used for management purposes, mainly to monitor “Pillar 2” risks. They are used to determine the capital adequacy and liquidity ratios of the Intesa Sanpaolo Group. This category also includes the Internal Systems related to Pillar 1 risks that will not be adopted for regulatory purposes, but contribute to ICAAP and stress testing assessments and models adopted for IFRS 9 purposes.

The adoption, extension, management and control of the Internal Systems for Pillar 1 risks involves a series of structured phases shared within the Group and arranged as follows:
– definition of the Internal System and activation of the strategic management;
– development and adoption. This step includes the following sub-phases: (i) development of the organisational/measurement model; and (ii) implementation, validation and internal auditing of the model and submission of the application for authorisation to the European Central Bank;
– monitoring and modification of the Internal System adopted.

Specifically, once the decision by the Board of Directors to adopt the Internal Systems and develop processes and methodologies subject to validation and internal audit has been made, the development and adoption of the models is implemented. In particular, this phase involves the following activities:
– development of the methodological framework of the model by the competent model development function; the development of this framework must ensure compliance with the Data Governance and Data Quality principles, set out in the “Data Governance Guidelines”;
– development of the organisational choices aimed at incorporating the models into company processes. The Transformation Center coordinates with the competent model development function and with the other functions involved to define the appropriate process solutions and support the owners of the process in drawing up the necessary internal regulations; the Head Office Department is involved in the assessment of the organisational impacts and roles and responsibilities;
– development and configuration, by the ICT Head Office Department, in coordination with the competent model development function, of the technological solutions supporting the models and processes subject to approval (the Financial and Market Risks Head Office Department is directly responsible for the development and configuration of the models and processes for Counterparty and Market Risks, with the support of the ICT Head Office Department for the systemic aspects and for the integration with the rest of the company ICT system);
– performance, by the internal validation function, of its preliminary checks based on the design and development documentation for the Internal System. The results of the analyses are discussed with the competent model development function, the other functions involved and the competent internal auditing function;
– presentation of the structure of the Internal System, accompanied by the results of the analysis by the internal validation function, to the Credit Risk and Pillar 2 Internal Models Committee for preliminary assessment and subsequent submission to the Board of Directors. The competent model development function, with the support of the validation function and, where necessary, of the other development functions, is responsible for the presentation and submission;
– submission of the proposal for adoption of the Internal System to the Risk Committee and for approval by the Board of Directors. The submission is made by the competent model development function.

The implementation and validation phase consists of the following steps:

- the competent model development function, in coordination with the other development functions concerned, implements the model, processes and ICT systems that make up the Internal System as a whole;
- the internal validation function performs a validation aimed at assessing: (i) the adequacy of the system with respect to the regulatory requirements and company operating requirements and (ii) the overall performance of the system, its effectiveness and its actual use in the various areas of the company management. The analyses carried out can lead to the identification of any critical points and areas for improvement;
- the competent internal auditing function carries out an audit aimed at verifying: (i) the development activities and the performance of the model, (ii) its actual use in the relevant company management processes, and (iii) the activities carried out by the validation function;
- the competent model development function, in coordination with the other development and control functions, provides periodic reporting on the activities implemented and on the progress of the validation and internal auditing activities to the competent Management Committee and, where appropriate, to the Risk Committee and the Board of Directors.

The application for authorisation is sent to the European Central Bank according to the procedure indicated by that Authority, which requires (i) the confirmation by the Bank, by e-mail from the Corporate Affairs and Advisory Head Office Department to the JST of the official application date, at least 4 months before that date and (ii) the sending of the pre-application package at least 2 months before the official application date.
The positive outcome of the checks in terms of completeness and compliance of the document set requested by the Supervisory Authority results in the confirmation of the official application date and the consequent start of the inspection process at the end of which the ECB sends the final decision, which has immediate effect, is legally binding and may require the satisfaction of corrective measures.
The Internal Systems are subject to verification at least once a year. In particular situations (e.g. due to the general economic environment, the occurrence of tensions in a particular customer segment or the existence of particularities in the development method), the verification may be more frequent.
Changes in the applicable regulatory framework, in the company's operations or in the context in which the Group operates, management opportunities, recommendations by the internal auditing and validation functions or remarks/observations made by the Supervisory Authority following inspections, may result in the need to make changes to the Internal System.
In order to implement an integrated and coherent risk management policy, the decisions regarding the Internal Risk Measurement Systems at Group level are assigned to the Parent Company's Corporate Bodies. Consequently, these bodies carry out their functions not only with reference to the Parent Company, but also to the overall operations of the entire Group.

Control and auditing of the rating systems

A prerequisite for the adoption of internal risk measurement systems for the calculation of the regulatory capital is an internal validation and auditing process for the rating systems, both during their establishment, aimed at obtaining the authorisation from the Supervisory Authorities, and during their ongoing operation/maintenance once the authorisation has been given.
The function responsible for the internal validation process for the Intesa Sanpaolo Group is the Internal Validation and Controls Head Office Department, which operates independently from the functions that manage the development activities and from the internal auditing function. Specifically, this department is responsible for continuously and interactively validating risk measurement and management systems in order to assess their compliance with regulatory provisions, operational company demands and the reference market.
With regard to the macro processes of development, adoption, monitoring and modification of the internal measurement systems for credit risk, the following activities are therefore assigned exclusively to the Internal Validation and Controls Head Office Department:

- preparation of the annual validation report to be presented to the Board of Directors to accompany the resolution for the certification of ongoing compliance of the internal system with the regulatory requirements, detailing any issues/areas for improvement;
- preparation of the Supplementary Validation Report (Annex 2) on the performance of the advanced approach models, as required by the supervisory framework;
- preparation of the validation report in the event of substantial or ex-ante changes to internal systems to be submitted to the competent bodies for their approval, with details of any issues/areas for improvement and assurances regarding the resolution plans for the issues identified by the supervisor during its on-site inspections;
- periodical analyses of the consistency of the corrective measures in case of critical issues/areas of improvement of the system highlighted by the same Internal Validation function, the Internal Auditing function and the Supervisory Authority, based on the progress report provided by the Credit Risk Management Head Office Department;
- initial and ongoing validation of the internal models of the Italian and international subsidiaries that do not have a local validation function;
- supervision and coordination of the local validation activities carried out by the corresponding functions of the Group companies;
- calculation of the default rate for the purposes, among others, of the development/recalibration of the models;
- monitoring of the performance of the IRB system within the annual Eurosystem Credit Assessment Framework - ECAF reporting (Static Pool);
- contribution to the disclosure process pursuant to Pillar 3.

The Internal Auditing Function for the Intesa Sanpaolo Group is assigned to the Chief Audit Officer. This department conducts assessments of the entire process of adoption, extension, management and control of the internal measurement systems for credit risk in accordance with the procedures and the areas of responsibility established by the company regulations and on the basis of a specific work plan.

Specifically, this department is responsible for assessing the effectiveness of the control system overseeing the process of measurement, management and control of the Group's exposure to credit risk also through the regular audit of the internal validation process for the related models developed in accordance with the Basel 3 and Prudential Supervisory regulations.
The Chief Audit Officer is therefore responsible for the:

- internal auditing aimed at verifying the compliance of the risk measurement systems with the requirements established by the internal/external regulations;
- assessment of the effectiveness of the overall structure of internal controls:
  - auditing of the internal validation process (verification of the completeness, adequacy, effectiveness and reliability of the analyses conducted and the consistency of the results);
  - audit of the first and second level controls;
- assessments of the effective operational use of the internal risk measurement systems;
- assessments of the adequacy, overall reliability and security of the information system;
- drafting of the relevant report accompanying the application for authorisation to the Supervisor;
- self-assessment of the Group's ICAAP process;
- periodic review of the disclosure process pursuant to Pillar 3;
- drafting of the annual internal auditing report with presentation to the competent Corporate Bodies, also in relation to the corrective action plan in case of critical points/areas of improvement identified by the Internal Auditing function, the Internal Validation function and the Supervisory Authority, based on the progress report periodically provided by the Credit Risk Management Head Office Department;
- steering and practical coordination of Internal Auditing functions in the subsidiaries, to guarantee control consistency with the actions of the Parent Company.

Description of the regulatory Corporate segment internal rating systems (PD)

The regulatory Corporate segment consists of companies or groups of companies with exposure of the Banking Group of over 1 million euro or with consolidated revenues of over 2.5 million euro.
Two groups of models and associated credit processes have been developed in the segment. The first of these involves Italian and foreign non-financial companies. The second refers to "specialised lending" and in particular to project finance, asset finance and, more generally, real estate development initiatives.
Specific models are also used in the subsidiaries VUB and Banka Intesa Sanpaolo d.d.

The Corporate model

The Corporate rating model applies to the Italian Corporate customers, from the manufacturing, commercial, services, long-term production and real estate sectors, and can be used for both stand-alone and consolidated financial statements with a turnover of less than 500 million euro.
The definition of default (impairment) used for the estimation of the model comprises Past Due, Unlikely to pay and Bad loans.
The model consists of two modules, one quantitative and the other qualitative, which generate an overall rating that may be altered by the proposing manager, by amending it according to the rules established in the override process.

The calculation of the quantitative rating of each customer uses statistical integration to combine the financial module – which is optimised by business sector and takes account of the differences in terms of balance sheet structure – and the performance module which, through the Central Credit Register data, serves to monitor behaviour with respect to the counterparty's system.
The qualitative module of the rating is divided into two components: an automatic module (which considers success factors and competitive positioning) and a qualitative questionnaire whose result is assessed by weighting. The integration of the qualitative module also takes place in two phases: the components are statistically integrated and the result of the integration is combined with the quantitative rating; in the second step, the notch from the quality questionnaire is added, which also considers the "external influence", i.e. membership of a certified segment, membership or not of a group, and the presence of financial activities.

The Large Corporate model

The Large Corporate rating model applies to the Italian Corporate customers with a turnover of more than 500 million euro and International Corporate customers with any level of turnover. It uses both stand-alone and consolidated financial statements.
The definition of default (impairment) used comprises Past Due, Unlikely to pay and Bad loans.
The model consists of two modules, one quantitative and the other qualitative, which generate an overall rating that may be altered by the proposing manager, by amending it according to the rules established in the override process.
The calculation of the quantitative rating of each customer uses a matrix integration to combine the financial module, calculated based on the financial statements, and the performance module, calculated based on market data.
The integration of the qualitative module takes place in two phases: the financial/performance rating is first statistically integrated with part of the qualitative questionnaire; in the second step, the notch from the quality questionnaire is added, which also considers the "external influence", i.e. membership or not of a group.
Finally, the rating calculated up to that point is integrated by matrix with the rating for the country of residence to take account of possible country risk.

The Banks model

The key decision in determining the PD for the Banks model was differentiating the models for banks in mature economies and banks in emerging countries. In short, the model consists of a quantitative part and a qualitative part, differentiated according to mature and emerging countries, a country rating component representing systemic risk, a component relating to

specific country risk for banks most closely correlated with country risk, and finally, a module (the "relationship manager's judgement") that allows the rating to be modified in certain conditions.

Public Entities model

For the estimate of the PD for the Public Entities segment, the models of reference have been differentiated according to the type of counterparty. Accordingly, default models have been developed for municipalities and provinces and shadow rating models for regions. An approach to extend the rating of the regulatory Entity (e.g.: Region) has been adopted for local healthcare authorities and other sector entities, with possible changes on the basis of the assessment financial statement data (notching).

The Specialised Lending models

The Specialised Lending segment is covered by various models for the different exposure categories, in particular Project Finance, Real Estate and Asset Finance.

a) The Project Finance model

The model is used to assess the exposures of vehicle companies whose sole purpose is to implement and manage a specific project (large infrastructures, systems, etc.). The model consists of a quantitative model, which unlike the standard econometric models, is based on a Monte Carlo simulation of the future cash flows, using the project's prospective economic and financial information. The model includes a qualitative questionnaire used to analyse the main project risks. The model's outputs are the PD and LGD parameters, used for reporting purposes.

b) Commercial Real Estate

This model assesses the medium and large-sized real estate projects designated for sale and/or letting, carried out by special purpose vehicles as well as by real estate funds. The model consists of a quantitative module based on a Monte Carlo simulation on the main risk drivers in these types of transactions, where cash flows mainly originating from rent and/or sales are impacted by the trends in historical market data. The model includes a qualitative questionnaire used to complete the analysis of the main project risks. The model's outputs are the PD and LGD parameters, used for reporting purposes.

c) The Real Estate Development (RED) model

This model is used to assess smaller real estate development transactions, aimed exclusively at the sale by special purpose vehicles. The model is the result of a series of statistical developments of the instrument, originally created by experts and supported by the available quantitative data.
It consists of a quantitative module containing the figures of the initiative and a qualitative module used to complete the analysis of the main project risks.

d) Asset Finance

This model is used to assess transactions involving the purchase of ships, with a mortgage-type interest over the asset financed, to be leased to a third party that does not belong to the Borrower's group. The model consists of a quantitative module based on a Monte Carlo simulation on the main risk drivers in these types of transactions, where cash flows mainly originating from leases are impacted by the trends in market data. The model includes a qualitative questionnaire used to analyse the main project risks. The model's outputs are the PD and LGD parameters, used for reporting purposes.

e) Leveraged & Acquisition Finance

This model is used to assess extraordinary finance transactions aimed at corporate acquisitions carried out predominantly with debt capital (high financial leverage); although it does not fall under the regulatory categories of Specialised Lending, it shares the key characteristics of these models. The model consists of a quantitative module based on a Monte Carlo simulation of the future cash flows using the prospective economic and financial information following the acquisition. The model includes a qualitative questionnaire deriving from the corporate models, in which the analyst adds additional information in a structured manner. The model's outputs are the PD and LGD parameters, used for reporting purposes.

The Corporate models used by Intesa Sanpaolo Bank Ireland and Intesa Sanpaolo Luxembourg

The banks use the Parent Company's Large Corporate model, validated in March 2017, which applies to the international counterparties and resident counterparties with a turnover of more than 500 million euro, according to the type of exposures held.

The Corporate models used by VUB

With regard to the counterparties with a turnover of more than 500 million euro, VUB uses the Parent Company's Large Corporate model.

a) The Internationally Active Large Corporate (IALC) model

The Internationally Active Large Corporate model coincides with the Large Corporate Model used by the Parent Company, except for a different calibration adopted to the scope of application of the model, which refers to counterparties with turnover of more than 40 million euro and less than 500 million euro.
The model consists of a quantitative section and a qualitative section, both of which are statistically estimated and integrated with one another according to a matrix-based approach. The relationship manager may override the integrated rating.

b) The Small and Medium Enterprises (SME) model
VUB's SME model, internally estimated by the Slovak subsidiary, is divided into two modules. The first module is statistical in nature and consists of a component relating to the characteristics of the counterparty, such as geographical location, number of employees, age and legal nature, as well as a financial component, differentiated according to the accounting structure (ordinary or simplified accounting schemes). The second model, which considers performance variables, is statistically integrated with the first.

c) The Specialised Lending models
The models adopted for Specialised Lending are partly derived from the Parent Company, adapting them to the local situation, and produce a slotting class as the output (with the exception of real estate initiatives designated for sale).

The Corporate model used by Banka Intesa Sanpaolo d.d.
Banka Intesa Sanpaolo d.d.'s Corporate model, which is estimated internally by the Slovenian subsidiary, consists of 3 modules. The first two, statistical, modules are composed of a financial component, based on the financial statement data published by the counterparties, and a behavioural component, consisting of internal and external data on the performance of the exposures. The third, qualitative, module is determined on an experiential basis and considers the geographical location, qualitative and prospective data of the reference business, ageing and socio-environmental risk data. The rating, determined by means of an ad hoc calibration on a Master Scale specific to the model, may still be subject to a penalty as a result of past-due unpaid amounts in the last 6 months.

Description of the regulatory Retail segment internal rating systems (PD)

For the Retail portfolio, a rating model (PD, LGD, and EAD) has been used since September 2018, consisting of the Mortgage segment (model change of the model already authorised) and the Other Retail segment (first adoption).
The Retail internal rating system, divided into the Mortgage and Other Retail sub-segments, adopts a counterparty approach and covers the entire private individuals portfolio.
The rating system differs according to the type of customer (new customers, borrower customers, non-borrower customers) and has been designed to use the most extensive set of information available, both internal and external, for each customer type.
The structure of the model is based on the integration of different modules that differ according to the customer type and that generate an integrated score on which the calibration is performed to obtain a rating.
The rating can be changed subsequently on the basis of two further modules (household budget and prejudicial information) that act through the improvement or worsening notching matrices.

VUB Retail Mortgage PD Model
The PD and LGD models for the Slovak residential mortgage market have been developed by the company VUB, in collaboration with the Parent Company, as part of a specific project.
The model basically consists of two statistical modules. The acceptance module processes the socio-demographic characteristics of customers, such as educational qualification, marital status and home address. The behavioural module integrates, for each of the four retail products (mortgages, personal loans, credit cards and credit facilities), behavioural information including operations, non-payment, use of credit lines and duration of the relationship with the Bank.
These modules are subsequently integrated statistically with additional information on the customer's risk status.

Description of the regulatory Retail SME segment internal rating systems (PD)

The Retail SME rating models are applied to the entire Small Business Retail population, identified on the basis of two criteria defined at the regulatory level (exposure of the banking group under 1 million euro) and at the Intesa Sanpaolo Group level (with individual or economic group revenue of under 2.5 million euro).
The counterparties are subdivided into Micro Business and Core Business, based on objective criteria envisaged by the process; the definition of default (impairment) used comprises Past Due, Unlikely to pay and Bad loans, net of technical defaults.
Both models comprise a quantitative module and a qualitative module.
The former is differentiated based on the variables "existing customer/new customer" (according to the presence of the internal performance indicator on counterparty risk) and legal form (firm or partnership/joint-stock company). In fact, the information used to assess creditworthiness varies depending on the type of customer. A combination of the different basic calculation modules provides the quantitative score.
These basic modules consider personal details, financial statement data for joint-stock companies, the tax return for sole proprietorships and partnerships, risks to the Group and to the credit system and, finally, data on the financial assets of the customer and of joint and related parties, which allow significant refinement in the treatment of new customers and borrowers.
The qualitative module, on the other hand, is based on a qualitative questionnaire. The weights of questions and answers have been statistically estimated. It differs in terms of number of questions and weight between the Micro and Core rating model, in order to more accurately grasp the segments specificities.
Furthermore, a specific set of questions has been drawn up for new customers and newly-formed counterparties, with the objective of enhancing the specific soft information known by the relationship manager and their contribution, in terms of experience, to the assessment for this type of counterparty.
A statistically estimated matrix combines and integrates the quantitative rating and the qualitative score.
The process for assignment of the Small Business Core rating envisages that, after calculation of the integrated rating, the relationship manager expresses an overall assessment of the customer risk under the override procedure, determining the final rating.
The rating assignment process for Micro counterparties, on the other hand, ends by answering an additional question of the Qualitative Questionnaire regarding the presence of any negative information identified at the granting process level, which applies a cap to the final rating in the event of higher risk.

Description of the LGD model for the Corporate, Retail SME, Retail, Banks and Public Entities segments

Loss Given Default (LGD) is determined according to differentiated models, specialised by operating segment (Corporate, Retail SME, Retail, Factoring, Leasing, Public Entities and Banks). As in the case of the PD, the models that have been adopted for the LGD of the International Subsidiary Banks are partly derived from the Parent Company, with adaptations to the local situation.

For the determination of the Leasing and Factoring LGD - in addition to the Corporate or Corporate SME regulatory segment - specific elements are used such as the type of product (real estate, business use, railway, aircraft, registered motor vehicles), for Leasing, and the type of contract (with or without recourse) and the geographical area (Italy, Overseas) for Factoring.

The calculation of the LGD for the Banks segment partly diverges from the models developed for the other segments as the estimation model used is based on the market price of debt instruments observed 30 days after the official date of default and relating to a sample of defaulted banks from all over the world, acquired from an external provider. The model is completed by an econometric estimate aimed at determining the most significant drivers, in accordance with the practice in use for the other models.

The LGD model for the Corporate segment of Intesa Sanpaolo Bank Ireland and Intesa Sanpaolo Luxembourg

In the same way as for the PD model, the Parent Company’s LGD grid has been extended to the two banks.

LGD model for the VUB mortgage segment

The LGD model was developed based on a “workout” approach, analysing the losses sustained by the Bank on the historical defaults. LGD is therefore determined based on the recovery rates achieved during the default period, taking into consideration direct and indirect costs and recovery times. Assessment of the loss rates was carried out for each individual transaction. The model classifies the data into two groups, according to two risk factors: LTV (residual debt at default over the value of the guarantee provided) and PPI (purchasing power index of the geographical area in which the collateral is situated).

With regard to IFRS 9, the models have the same development framework, but are subject to adjustments that are necessary to make them consistent with the financial reporting standard.

Description of the EAD models

The calculation of the Exposure at Default (EAD) uses regulatory parameters (Retail SME, Factoring, Leasing, Public Entities and Banks) and models differentiated and specialised by operating segment (Corporate and Retail).

The methodology used for the EAD estimate is based on data from the 12 months prior to the default event and differs according to whether or not there is a margin available at the observation date: if there is a margin the CCF analysis is used, otherwise the K factor analysis is used. In both cases, corrective factors are applied in compliance with the regulatory requirements and to introduce a margin of conservatism on the estimates.

Quantitative disclosure

The table below shows the scope of companies for which the Group, as at 31 December 2020, uses the IRB approaches in calculating the capital requirements for credit and counterparty risk for the Institutions, Corporate and Retail portfolios and for the Banking Book equity exposures (IRB).
Following the acquisition of the UBI Banca Group, in order to ensure homogeneous treatment of customers, guarantee current operations and consistent oversight of Group risks, in September 2020 the strategic plan for the recovery of regulatory compliance in relation to Pillar I risks and the request to temporarily use the related internal models for credit and operational risk for the purpose of consolidated supervisory reports were sent to the Supervisory Authorities. With specific reference to credit risk, the preparatory activities were begun for sending the requests to the ECB to apply for the extension of ISP's internal models to the acquired UBI portfolios.

Scope of companies for application of the IRB approaches

Portfolio	PD - Model Type	LGD - Model Type	EAD - Model Type	Status
Institutions	Default model (Banks) (4)	Market model (Banks)	Regulatory parameters (Banks)	AIRB authorised since June 2017
	Default model (Municipalities and Provinces) Shadow model (Regions) (4)	Workout model (Municipalities, Provinces, Regions)	Regulatory parameters (Municipalities, Provinces, Regions)	AIRB authorised since June 2017
Corporate	Default model (Corporate)	Workout model (Corporate; Leases and Factoring)	CCF/K factor model (Corporate)	FIRB authorised since December 2008, AIRB LGD authorised since December 2010, EAD authorised since September 2017 (1)
	Simulation models (Specialised Lending)	Simulation models (Specialised Lending)	Regulatory parameters (Specialised Lending)	AIRB authorised since June 2012
Retail	Default model (Retail)	Workout model (Retail)	CCF/K factor model (Retail)	AIRB Retail since September 2018 (2)
	Default model (Retail SME)	Workout model (Retail SME)	Regulatory parameters (Retail SME)	AIRB authorised since December 2012 (3)

1) ISP authorised for FIRB from December 2008, for LGD AIRB from December 2010 and for EAD from 2017, Banca IMI (2012, merged by incorporation into the Parent company since 2020), ISP Ireland (2010), VUB (2010), Intesa Sanpaolo Bank (2017), and ISP Luxembourg (2017). From 2017, the Corporate model has also been used to calculate the risk on the Banking book equity portfolio with LGD 65%/90%.
2) VUB authorised from June 2012 for PD and LGD of Retail Mortgage models.
3) VUB authorised from June 2014.
4) ISP and Banca IMI (merged by incorporation into the Parent company in 2020) authorised from 2017.

As at 31 December 2020, the Group EAD value for the components subject to credit risk within the IRB models was 55.91% (54.46% Advanced IRB and 1.45% Foundation IRB), whereas it was around 44.09% for the standardised approach.
Within the exposures under the standard models, around 5.88% came under the rollout plan[15].
These values include the figures for the UBI Group companies, for which a specific rollout plan is in place.

[15] The percentages shown in the table relating to the exposure classes involved in a roll-out plan include both the Credit Risk component and the Counterparty Risk component.

The breakdown of the percentages by exposure class is shown below.

Advanced IRB approach (54.46%)	
3.30%	Supervised intermediaries, public sector and local authorities and other entities
1.68%	Specialised lending
7.13%	SMEs
18.81%	Other corporates
17.06%	Exposures secured by properties: individuals
1.15%	Exposures secured by properties: SMEs
3.12%	Other retail exposures: Individuals
1.95%	Other retail exposures: SMEs
0.26%	Qualifying revolving exposures

Basic IRB approach (1.45%)	
0.06%	SMEs
0.12%	Other corporates
1.27%	Equity

Standardised Approach (44.09%)	
30.78%	Central governments or central banks
0.23%	Regional governments or local authorities
0.18%	Public sector entities
0.17%	Multilateral development banks
0.08%	International organisations
4.22%	Corporates
1.08%	Institutions
1.95%	Retail
0.79%	Secured by mortgages on immovable property
0.22%	Exposures in default
0.10%	Exposures associated with particularly high risk
0.26%	Covered bonds
0.45%	Equity instruments
0.59%	Units or shares of collective investment undertakings
2.99%	Other exposures

Exposure classes involved in a roll-out plan (5.88%)	
1.41%	Institutions
0.03%	Regional governments or local authorities
1.43%	Corporates
1.35%	Retail
0.31%	Units or shares of collective investment undertakings
0.57%	Secured by mortgages on immovable property
0.17%	Covered bonds
0.00%	Exposures associated with particularly high risk
0.00%	Public sector entities
0.19%	Exposures in default
0.00%	Equity instruments
0.42%	Other exposures

The EAD values of exposures as at 31 December 2020 for the various IRB approaches (IRB, Foundation IRB and Advanced IRB) are shown in the tables below.

Exposure values by regulatory portfolio (Foundation IRB Approach)

(millions of euro)

Regulatory portfolio	Exposure value	
	31.12.2020	31.12.2019
Exposures to or secured by corporates:		
- Specialised lending	-	-
- SMEs (Small and Medium Enterprises)	459	524
- Other corporates	885	706
Total credit risk (IRB)	**1,344**	**1,230**

Exposure values by regulatory portfolio (Advanced IRB Approach)

(millions of euro)

Regulatory portfolio	Exposure value	
	31.12.2020	31.12.2019
Exposures to or secured by corporates:		
- Specialised lending	10,422	12,378
- SMEs (Small and Medium Enterprises)	53,368	51,058
- Other corporates	142,621	119,624
Exposures to or secured by Supervised Intermediaries, Public sector and local entities and Other entities:	30,131	35,967
Total credit risk (Advanced IRB approach)	**236,542**	**219,027**

Exposure values by regulatory portfolio (IRB Approach)

(millions of euro)

Regulatory portfolio	Exposure value	
	31.12.2020	31.12.2019
Retail exposures:		
- Exposures secured by residential property: SMEs	8,511	5,464
- Exposures secured by residential property: private individuals	126,453	96,263
- Other retail exposures: SMEs	14,481	12,979
- Other retail exposures: private individuals	23,097	20,987
- Qualifying revolving exposures	1,907	-
Total credit risk (IRB)	**174,449**	**135,693**

(millions of euro)

Regulatory portfolio	Exposure value	
	31.12.2020	31.12.2019
Exposures in equity instruments subject to the PD/LGD approach	948	1,283
Total credit risk (IRB)	**948**	**1,283**

Values of exposures to securitisations (IRB Approach)

(millions of euro)

Securitisations	Exposure value	
	31.12.2020	31.12.2019
Exposures to securitisations (RBA - SFA - SEC-IRBA)	23,101	18,249
Total credit risk (IRB)	**23,101**	**18,249**

For detailed information on exposures to securitisations, see the specific section.

The exposure value shown in the tables set forth in this Section is expressed gross of adjustments and takes into account (for guarantees given and commitments to disburse funds) credit conversion factors. Conversely, the exposure value does not consider the risk mitigation techniques which – for exposures assessed using internal models – are directly incorporated in the weightings applied to said exposure.

Below is a breakdown by geographical area of the exposures subject to IRB approaches, broken down by major countries for which the exposures cumulated on all portfolios exceed the 2-billion-euro threshold (identified in accordance with the provisions of the EBA Guidelines GL/2016/11 and GL/2014/14) and which represent, overall, approximately 94% of the Group's total IRB exposures. The exposures also include those of the UBI Group, amounting to 33.4 billion euro for the Corporates portfolio and 38.8 billion euro for the Retail portfolio, all in Italy.

Exposure values: PD and LGD by geographical area (IRB Approaches)

(millions of euro)

Regulatory portfolio	31.12.2020			31.12.2019
	Exposure value	Weighted average PD (*) (%)	Weighted average LGD (%)	Exposure value
- Retail exposures	**174,449**			**135,693**
1. Italy	165,121	6.73	22.2	127,380
2. United States of America	52	1.49	17.6	39
3. Slovakia	8,564	1.77	22.2	7,755
4. France	29	6.75	19.2	22
5. Netherlands	17	3.16	17.2	15
6. United Kingdom	148	3.28	18.5	108
7. Germany	42	4.87	19.5	29
8. Spain	10	12.66	25.4	8
9. Turkey	-	-	-	1
10. Brasil	3	9.32	25.4	3
11. Luxembourg	15	2.83	18.9	11
12. Russia	14	8.98	20.3	13
13. Other countries	434	x	x	309
- Exposures to or secured by corporates	**207,755**			**184,290**
1. Italy	153,616	12.32	35.8	127,505
2. United States of America	8,102	1.61	32.3	8,952
3. Slovakia	3,528	3.69	37.9	3,368
4. France	3,128	2.74	32.6	2,818
5. Netherlands	2,303	0.84	30.5	2,442
6. United Kingdom	4,121	1.47	31.4	4,289
7. Germany	2,685	3.95	33.7	3,123
8. Spain	3,591	0.88	31.7	2,437
9. Turkey	-	-	-	649
10. Brasil	521	18.75	32.0	733
11. Luxembourg	4,058	1.68	31.9	4,410
12. Russia	3,970	0.39	30.8	5,851
13. Other countries	18,132	x	x	17,713
- Exposures to or secured by Supervised Intermediaries, Public sector and local entities and Other entities	**30,131**			**35,967**
1. Italy	17,478	2.70	23.1	18,274
2. United States of America	835	0.07	62.6	880
3. Slovakia	-	0.06	45.0	8
4. France	3,021	0.10	23.7	3,396
5. Netherlands	267	0.82	35.4	322
6. United Kingdom	759	0.11	30.2	2,491
7. Germany	458	0.12	35.7	1,236
8. Spain	606	0.18	28.2	570
9. Turkey	-	-	-	2,049
10. Brasil	1,641	1.36	44.7	2,499
11. Luxembourg	347	1.21	38.9	140
12. Russia	56	0.26	51.6	77
13. Other countries	4,663	x	x	4,025
- Equity exposures	**948**			**1,283**
1. Italy	948	9.22	90.0	1,227
2. United States of America	-	-	-	56
3. Slovakia	-	-	-	-
4. France	-	-	-	-
5. Netherlands	-	-	-	-
6. United Kingdom	-	-	-	-
7. Germany	-	-	-	-
8. Spain	-	-	-	-
9. Turkey	-	-	-	-
10. Brasil	-	-	-	-
11. Luxembourg	-	-	-	-
12. Russia	-	-	-	-
13. Other countries	-	x	x	-

(*) The PD values presented refer to both performing and defaulted exposures.

IRB approach - Effect on the RWAs of credit derivatives used as CRM techniques as at 31 December 2020 (EU CR7 EBA GL 2016/11)

(millions of euro)

		PRE-CREDIT DERIVATIVES RWAs	ACTUAL RWAs
1	**Exposures under FIRB**	**999**	**999**
2	Central governments and central banks	-	-
3	Institutions	-	-
4	Corporates – SMEs	313	313
5	Corporates – Specialised lending	-	-
6	Corporates – Other	686	686
7	**Exposures under AIRB**	**186,509**	**186,494**
8	Central governments and central banks	-	-
9	Institutions	12,088	12,093
10	Corporates – SMEs	28,959	28,959
11	Corporates – Specialised lending	7,549	7,549
12	Corporates – Other	71,063	71,043
13	Retail – Secured by real estate SMEs	2,163	2,163
14	Retail – Secured by real estate non-SMEs	22,614	22,614
15	Retail – Qualifying revolving	292	292
16	Retail – Other SMEs	3,601	3,601
17	Retail – Other non-SMEs	6,521	6,521
18	Equity IRB	31,659	31,659
19	Other non credit obligation assets	-	-
20	**TOTAL**	**187,508**	**187,493**

The limited use of credit derivatives as a credit risk mitigation instrument had a modest effect as at 31 December, with a decrease of 20 million euro in the Corporates portfolio and an increase of 5 million euro in the Institutions portfolio, generating an overall benefit of 15 million euro in risk-weighted assets.

IRB approach – Credit risk exposures by exposure class and PD range as at 31 December 2020 (EU CR6 EBA GL 2016/11) *(Table 1 of 3)*

(millions of euro)

PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD (%)	Number of obligors	Average LGD (%)	Average maturity (days)	RWAs	RWA density (**)	EL	Value adjust-ments and provisions
Exposures to or secured by Supervised Intermediaries, Public sector and local authorities and Other entities												
0.00 to <0.15	4,308	15,108	3%	4,884	0.06	714	42.5	883	1,291	26%	1	
0.15 to <0.25	4,028	4,992	7%	4,404	0.18	499	30.2	806	1,375	31%	2	
0.25 to <0.50	5,655	4,944	5%	5,960	0.33	844	22.9	1,418	2,438	41%	4	
0.50 to <0.75	808	2,013	13%	1,072	0.72	361	31.3	926	659	61%	2	
0.75 to <1.25	1,189	400	0%	1,191	1.04	204	15.0	1,659	504	42%	2	
1.25 to <2.50	4,388	4,944	2%	4,634	1.62	547	28.3	1,036	3,441	74%	20	
2.50 to <5.00	1,556	2,227	5%	1,615	2.98	281	42.2	587	2,021	125%	20	
5.00 to <10.00	173	262	6%	187	6.78	118	16.0	1,552	129	69%	2	
10.00 to <20.00	71	164	1%	73	15.88	63	28.6	947	113	154%	3	
20.00 to <100.00	30	10	0%	30	35.03	32	11.7	1,731	21	71%	1	
100.00 (default)	406	9	3%	406	100.00	147	49.5	607	101	25%	193	
Subtotal	22,612	35,073	4%	24,456	2.51	3,810	30.8	1,050	12,093	49%	250	222
Exposures to or secured by corporates:												
- Specialised lending												
0.00 to <0.15	-	-	-	-	-	-	-	-	-	-	-	
0.15 to <0.25	5	10	18%	7	0.23	22	33.7	946	2	25%	-	
0.25 to <0.50	283	144	15%	303	0.35	103	19.5	889	63	21%	-	
0.50 to <0.75	1,474	438	19%	1,534	0.54	219	17.9	1,548	535	35%	1	
0.75 to <1.25	1,544	1,358	19%	1,569	0.82	265	19.5	1,376	621	40%	3	
1.25 to <2.50	2,791	884	17%	2,931	1.56	723	21.7	1,262	1,587	54%	10	
2.50 to <5.00	1,390	491	16%	1,431	3.68	619	20.7	1,209	832	58%	11	
5.00 to <10.00	330	51	12%	329	8.55	111	18.9	1,109	248	75%	5	
10.00 to <20.00	450	111	14%	448	16.75	154	34.4	1,220	804	179%	25	
20.00 to <100.00	262	83	13%	273	35.76	158	20.9	1,023	286	105%	20	
100.00 (default)	912	79	99%	972	100.00	516	46.8	1,072	244	25%	436	
Subtotal	9,441	3,649	19%	9,797	13.20	2,890	23.5	1,273	5,222	53%	511	630
- SMEs (small and medium enterprises)												
0.00 to <0.15	1,477	2,240	11%	1,414	0.11	7,705	38.3	904	279	20%	1	
0.15 to <0.25	3,227	3,708	15%	2,892	0.21	11,954	38.5	850	776	27%	2	
0.25 to <0.50	9,658	8,116	18%	7,845	0.39	35,663	39.5	825	2,937	37%	12	
0.50 to <0.75	7,219	5,100	20%	5,730	0.61	27,554	39.3	825	2,651	46%	14	
0.75 to <1.25	6,265	3,989	20%	4,841	1.04	18,328	39.6	831	2,793	58%	20	
1.25 to <2.50	11,980	5,519	21%	9,361	1.67	38,201	38.8	897	6,228	67%	61	
2.50 to <5.00	6,135	2,366	21%	4,941	3.22	21,207	37.0	920	3,690	75%	59	
5.00 to <10.00	5,789	1,922	24%	4,877	7.04	18,160	37.4	989	4,617	95%	128	
10.00 to <20.00	1,646	302	23%	1,499	14.89	4,947	35.1	1,068	1,822	122%	78	
20.00 to <100.00	672	81	23%	802	27.98	3,114	35.1	1,257	1,224	153%	78	
100.00 (default)	9,164	586	70%	9,090	100.00	18,413	54.6	834	2,255	25%	4,788	
Subtotal	63,232	33,929	20%	53,292	19.36	205,246	41.3	880	29,272	55%	5,241	5,815
- Other corporates												
0.00 to <0.15	8,125	30,650	21%	14,426	0.09	2,491	32.7	691	2,514	17%	4	
0.15 to <0.25	18,727	36,428	18%	24,896	0.21	4,051	34.3	726	8,083	32%	18	
0.25 to <0.50	28,831	35,982	22%	34,805	0.36	8,279	32.9	768	14,916	43%	42	
0.50 to <0.75	16,261	13,580	26%	14,289	0.53	4,743	32.0	746	6,985	49%	24	
0.75 to <1.25	17,891	17,173	25%	20,683	1.01	5,137	32.6	826	14,066	68%	68	
1.25 to <2.50	12,116	7,948	23%	12,597	1.80	6,436	32.6	846	10,307	82%	74	
2.50 to <5.00	6,451	3,364	24%	6,619	3.72	3,424	31.7	802	6,425	97%	78	
5.00 to <10.00	2,808	1,470	28%	2,642	7.38	1,927	30.1	827	3,032	115%	59	
10.00 to <20.00	1,486	725	26%	1,520	15.05	733	29.2	1,090	2,228	147%	67	
20.00 to <100.00	1,095	359	10%	1,216	25.59	787	26.8	522	1,594	131%	83	
100.00 (default)	6,148	1,684	46%	6,641	100.00	4,900	44.5	699	1,579	24%	2,833	
Subtotal	119,939	149,363	22%	140,334	5.93	42,908	33.3	767	71,729	51%	3,350	4,425

IRB approach – Credit risk exposures by exposure class and PD range as at 31 December 2020 (EU CR6 EBA GL 2016/11) *(Table 2 of 3)*

(millions of euro)

PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD (%)	Number of obligors	Average LGD (%)	Average maturity	RWAs	RWA density (**)	EL	Value adjust-ments and provisions
Retail exposures: (*)												
- Exposures secured by residential properties: SMEs												
0.00 to <0.15	637	20	48%	644	0.12	4,381	20.3	-	30	5%	-	
0.15 to <0.25	551	13	57%	553	0.15	4,668	22.2	-	33	6%	-	
0.25 to <0.50	2,159	37	49%	2,167	0.32	19,958	18.7	-	210	10%	1	
0.50 to <0.75	1,136	16	42%	1,137	0.70	11,556	17.4	-	192	17%	1	
0.75 to <1.25	455	9	53%	456	1.12	3,959	22.2	-	110	24%	1	
1.25 to <2.50	885	13	38%	886	1.83	9,120	19.1	-	286	32%	3	
2.50 to <5.00	647	11	40%	647	3.42	6,394	19.8	-	306	47%	4	
5.00 to <10.00	455	7	36%	454	6.67	4,684	18.8	-	297	65%	5	
10.00 to <20.00	266	4	46%	264	15.43	2,637	20.3	-	241	91%	8	
20.00 to <100.00	189	3	42%	189	39.68	2,050	18.6	-	180	95%	14	
100.00 (default)	1,117	9	53%	1,114	100.00	9,609	37.2	-	278	25%	394	
Subtotal	8,497	142	47%	8,511	15.51	79,016	21.7	-	2,163	25%	431	577
- Exposures secured by residential properties: individuals												
0.00 to <0.15	40,833	559	75%	41,127	0.09	502,743	16.7	-	1,570	4%	6	
0.15 to <0.25	11,673	58	13%	11,592	0.17	131,493	17.5	-	765	7%	3	
0.25 to <0.50	24,351	158	55%	24,269	0.34	272,348	16.3	-	2,550	11%	13	
0.50 to <0.75	8,548	70	59%	8,477	0.51	94,207	18.4	-	1,313	15%	8	
0.75 to <1.25	16,539	75	44%	16,376	0.90	191,881	16.9	-	3,451	21%	24	
1.25 to <2.50	8,671	39	67%	8,572	1.92	109,409	17.9	-	3,085	36%	29	
2.50 to <5.00	5,265	29	58%	5,220	3.49	60,865	16.7	-	2,585	50%	31	
5.00 to <10.00	4,376	13	25%	4,314	6.95	52,313	17.5	-	3,120	72%	53	
10.00 to <20.00	2,060	2	20%	2,041	15.34	23,598	16.5	-	1,918	94%	52	
20.00 to <100.00	1,001	2	70%	997	29.70	10,702	15.9	-	1,015	102%	48	
100.00 (default)	3,468	4	100%	3,468	100.00	40,809	39.4	-	1,242	36%	1,269	
Subtotal	126,785	1,009	63%	126,453	4.00	1,490,368	17.6	-	22,614	18%	1,536	1,672
- Qualifying revolving exposures												
0.00 to <0.15	45	594	80%	524	0.07	233,606	44.7	-	11	2%	-	
0.15 to <0.25	38	311	84%	302	0.15	163,243	50.5	-	14	5%	-	
0.25 to <0.50	106	432	86%	484	0.47	282,109	47.1	-	53	11%	1	
0.50 to <0.75	-	-	-	-	-	-	-	-	-	-	-	
0.75 to <1.25	18	30	81%	43	1.17	18,811	25.4	-	5	13%	-	
1.25 to <2.50	83	232	90%	297	1.30	186,254	50.7	-	75	25%	2	
2.50 to <5.00	74	120	88%	183	2.68	112,002	47.1	-	74	40%	2	
5.00 to <10.00	24	25	92%	48	5.83	33,142	49.3	-	35	71%	1	
10.00 to <20.00	8	6	89%	14	14.68	9,909	47.7	-	17	117%	1	
20.00 to <100.00	3	2	90%	5	27.13	3,442	42.9	-	7	134%	1	
100.00 (default)	5	2	100%	7	100.00	3,076	61.5	-	1	20%	4	
Subtotal	404	1,754	84%	1,907	1.36	1,045,594	47.2	-	292	15%	12	10
- Other retail exposures: SMEs												
0.00 to <0.15	2,288	1,710	12%	1,546	0.12	59,197	31.9	-	122	8%	1	
0.15 to <0.25	1,981	1,115	6%	1,154	0.15	77,155	33.7	-	107	9%	1	
0.25 to <0.50	4,856	2,613	11%	2,983	0.31	212,351	33.0	-	479	16%	3	
0.50 to <0.75	2,396	1,107	23%	1,598	0.69	141,472	33.3	-	449	28%	4	
0.75 to <1.25	1,166	428	4%	725	1.11	47,557	35.9	-	223	31%	3	
1.25 to <2.50	2,312	849	20%	1,516	1.81	133,843	35.2	-	618	41%	10	
2.50 to <5.00	1,848	553	15%	1,161	3.44	96,577	35.7	-	528	46%	14	
5.00 to <10.00	1,012	237	12%	610	6.48	62,807	35.3	-	296	48%	14	
10.00 to <20.00	605	129	8%	379	14.90	39,757	37.4	-	237	63%	21	
20.00 to <100.00	239	60	11%	165	39.55	34,234	37.7	-	140	85%	25	
100.00 (default)	2,754	97	32%	2,616	100.00	111,125	64.5	-	402	15%	1,655	
Subtotal	21,457	8,898	13%	14,453	19.90	1,016,075	39.5	-	3,601	25%	1,751	2,232
- Other retail exposures: individuals												
0.00 to <0.15	2,983	1,792	59%	3,991	0.08	1,089,158	30.7	-	258	6%	1	
0.15 to <0.25	2,003	584	60%	2,307	0.17	429,208	31.4	-	278	12%	1	
0.25 to <0.50	2,868	696	60%	3,203	0.34	490,689	30.8	-	588	18%	3	
0.50 to <0.75	1,644	247	69%	1,759	0.51	294,850	33.2	-	451	26%	3	
0.75 to <1.25	2,697	380	72%	2,918	0.79	446,145	33.8	-	953	33%	8	
1.25 to <2.50	2,706	435	66%	2,837	1.81	442,872	31.7	-	1,199	42%	17	
2.50 to <5.00	1,595	196	69%	1,705	3.77	285,254	32.6	-	847	50%	21	
5.00 to <10.00	1,891	143	73%	1,971	7.21	404,647	34.2	-	1,112	56%	49	
10.00 to <20.00	654	31	75%	669	15.85	137,104	34.0	-	485	72%	36	
20.00 to <100.00	194	9	63%	197	30.97	47,886	33.8	-	182	92%	21	
100.00 (default)	1,524	21	89%	1,540	100.00	181,823	72.6	-	168	11%	1,104	
Subtotal	20,759	4,534	63%	23,097	8.72	4,249,636	34.8	-	6,521	28%	1,264	1,266

IRB approach – Credit risk exposures by exposure class and PD range as at 31 December 2020 (EU CR6 EBA GL 2016/11) *(Table 3 of 3)*

(millions of euro)

PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD (%)	Number of obligors	Average LGD (%)	Average maturity	RWAs	RWA density (**)	EL	Value adjust-ments and provisions
Exposures in equity instruments subject to the PD/LGD approach												
0.00 to <0.15	-	-	-	-	-	-	-	-	-	-	-	
0.15 to <0.25	33	1	100%	34	0.20	-	65.0	1,825	33	98%	-	
0.25 to <0.50	18	-	100%	18	0.33	-	65.0	1,825	23	127%	-	
0.50 to <0.75	4	-	100%	4	0.61	-	65.0	1,825	5	147%	-	
0.75 to <1.25	149	-	100%	149	1.23	-	75.1	1,825	345	232%	1	
1.25 to <2.50	236	1	100%	236	1.37	-	85.9	1,825	659	278%	3	
2.50 to <5.00	30	-	100%	30	3.12	-	65.0	1,825	71	239%	1	
5.00 to <10.00	40	-	100%	40	8.43	-	65.1	1,825	126	312%	2	
10.00 to <20.00	201	20	100%	221	13.43	-	65.0	1,825	793	360%	19	
20.00 to <100.00	104	-	100%	104	24.25	-	65.0	1,825	355	342%	16	
100.00 (default)	112	-	100%	112	100.00	-	81.7	1,825	-	-	92	
Subtotal	927	22	100%	948	18.62	-	73.8	1,825	2,410	254%	134	-

(*) The average maturity is not shown for retail portfolios since this parameter is not used when calculating risk-weighted assets in accordance with regulations.

(**) The percentage values of RWA density were calculated on amounts not rounded up or down to the nearest million.

In the interests of immediate continuity and comparability with the previous company reports, the trends and main changes during the half-year for the ISP Group, net of the former UBI Group, are detailed below. The trends and main changes relating to the UBI Group are provided at the end of this section.

For ISP (331 billion euro as at December 2020), the aggregate of the exposures subject to credit risk, measured using advanced approaches, decreased sharply in the half-year, both in terms of EAD (-5.8%, or -20 billion euro) and RWAs (-14 billion euro). The most significant changes were recorded for the “SME” segment (-7.7 billion euro in EAD and -3.7 billion euro in RWAs) and for the “Other corporates” segment (-6.3 billion euro in EAD and -5.4 billion euro in RWAs), mainly due to the loans granted to customers backed by a government guarantee as part of the measures to counter the COVID-19 pandemic crisis, which led to their reclassification under Central Government, and the completion of the sale of bad loans (the “REY” securitisation). There were also decreases for the “Public sector” segment (-3.1 billion euro in EAD and -1.1 billion euro in RWAs) and in the “Exposures in equity instruments” (-1.2 billion euro in EAD and -4.5 billion euro RWAs). Following the permission received from the Supervisor, changes were made to the Corporate and Retail models, with an update of the time series and reconfiguration of the risk parameters (EAD, PD and LGD): at the end of the year, the performing exposures showed minor changes in average risk (PD), which stood at 161 bps compared to 157 bps in June 2020, and in recovery capacity (LGD), which stood at 29.7% compared to 30.2% in the previous half-year.

With regard to UBI perimeter (71 billion euro as at December 2020), the aggregate decreased by -1.6 billion euro (-2.2%), both due to the de-risking policies implemented through the sale of non-performing loans (SIRIO securitisation of SME exposures and sale of UTPs for -1.3 billion euro) and a slight reduction of 0.3 billion euro in the volume of exposures. The reduction in risk-weighted assets was of a similar magnitude, mainly attributable to the improvement in the risk profile in the recomposition of the regulatory portfolios, with reductions in RWAs in the performing portfolio (-1 billion euro) and the non-performing portfolio (-0.3 billion euro). With regard to the risk profile (PD), the performing exposures fell significantly to 159 bps compared to 187 bps in June, with reductions spread across the different portfolios but mainly concentrated as a percentage of volumes in the “Retail exposures secured by immovable property” portfolio, which accounted for around 40% of the operations measured using the advanced approaches (27 billion euro out of 71 billion euro for the aggregate).

IRB approach – Specialised lending and equities as at 31 December 2020 (EU CR10 EBA GL 2016/11)

(millions of euro)

SPECIALISED LENDING								
Regulatory categories	**Remaining maturity**	**On- balance-sheet amount**	**Off-balance-sheet amount**	**Risk weight**	**Exposure amount**	**RWAs**	**Expected losses**
Category 1	Less than 2.5 years	99	14	50%	113	56	-
	Equal to or more than 2.5 years	698	119	70%	788	551	3
Category 2	Less than 2.5 years	169	23	70%	190	133	1
	Equal to or more than 2.5 years	867	215	90%	1,028	925	8
Category 3	Less than 2.5 years	281	57	115%	324	373	9
	Equal to or more than 2.5 years	24	21	115%	40	46	1
Category 4	Less than 2.5 years	44	-	250%	44	109	4
	Equal to or more than 2.5 years	54	-	250%	54	134	4
Category 5	Less than 2.5 years	34	1	-	34	-	17
	Equal to or more than 2.5 years	61	10	-	69	-	34
Total	**Less than 2.5 years**	**627**	**95**		**705**	**671**	**31**
	Equal to or more than 2.5 years	**1,704**	**365**		**1,979**	**1,656**	**50**

EQUITIES UNDER THE SIMPLE RISK-WEIGHTED APPROACH						
Categories	**On- balance-sheet amount**	**Off-balance-sheet amount**	**Risk weight**	**Exposure amount**	**RWAs**	**Capital requirements**
Private equity exposures	115	-	190%	115	218	17
Exchange-traded equity exposures	32	-	290%	32	94	8
Other equity exposures	6,604	233	370%	6,819	25,229	2,018
TOTAL	**6,751**	**233**		**6,966**	**25,541**	**2,043**

There was also an amount of 1.5 billion euro (EAD) relating to the equity exposures subject to fixed weighting factors.
The table above shows the exposures related to specialised lending according to their respective regulatory categories and contractual maturities (including those relating to the UBI Group amounting to around 1.3 billion euro of risk-weighted assets as at 31 December 2020), as well as the disclosure of the equities calculated based on the simple risk-weight approach. The Specialised Lending segment is covered by various models for the different exposure categories, as detailed in the section "Specialised Lending Models".

Actual losses and comparison with expected losses

The table below shows the actual losses recognised in the income statement during the last three years on the counterparties in default belonging to the regulatory portfolios for which the Group applies internal methods to calculate the capital requirements for credit risk. The amounts for 2020 include UBI figures from its acquisition date.

Actual losses by regulatory portfolio

(millions of euro)

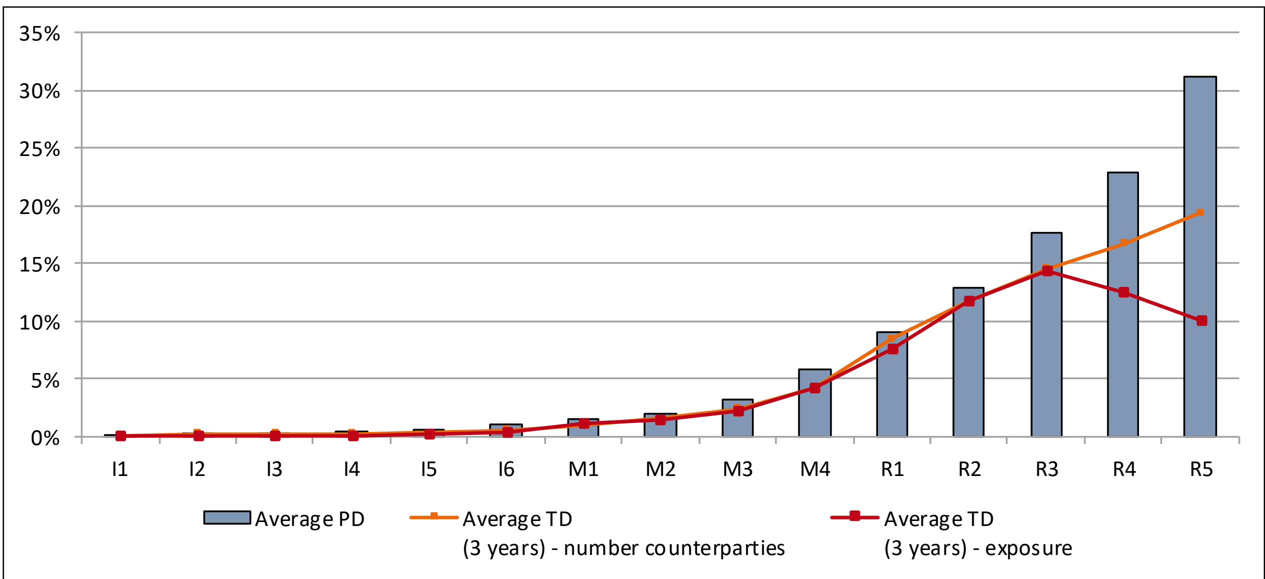
Regulatory portfolio	**Actual losses**		
	2020	**2019**	**2018**
Exposures to or secured by corporates (Corporate)	-1,726	-1,414	-1,389
Exposures secured by residential property (Retail mortgages)	-97	-90	-107
Exposures to SMEs (SME retail)	-438	-266	-311

During the period 2018-2020, expected losses for performing Corporate counterparties (determined based on prior year-end data) totalled 3,397 million euro, in addition to 576 million euro for Retail Mortgage and 399 million euro for Retail SME.

The comparison shows that the actual losses exceeded the expected losses in the three-year period 2018-2020 for Corporate and Retail SME, whereas for Retail Mortgages the expected losses exceeded the actual losses in the three-year period.
The total amount of actual losses over the last three years was significantly impacted by the losses sustained on non-performing loans in prior periods.
The effects recorded in recent years have been influenced by the major de-risking carried out, while the last year has been affected by the COVID-19 pandemic.

Comparison of PD and DR figures by rating class for the Corporate regulatory segment

As part of its ongoing validation work, the Internal Validation - Credit Risk Internal Systems Unit periodically (on a half-yearly basis) compares the default rates[16] recorded on the models validated for IRB purposes with the average PDs by individual rating class. The default events, recorded from November 2019, were those identified based on the early adoption of the new Definition of Default (DoD). In Q2-2021, the model will undergo a model change to align it to the new standard for default identification established by the EBA Guidelines.
For the Corporate Domestic regulatory segment (Italian Corporate counterparties with a turnover of less than 500 million euro), the chart below shows the comparison by individual rating class between PD and default rates (calculated in terms of number of counterparties and exposure). The values were obtained from the production data for all three of the reference dates considered (December 2017, December 2018 and December 2019); the model was authorised by the Regulator in April 2017 and has been used, for regulatory purposes, since June 2017.



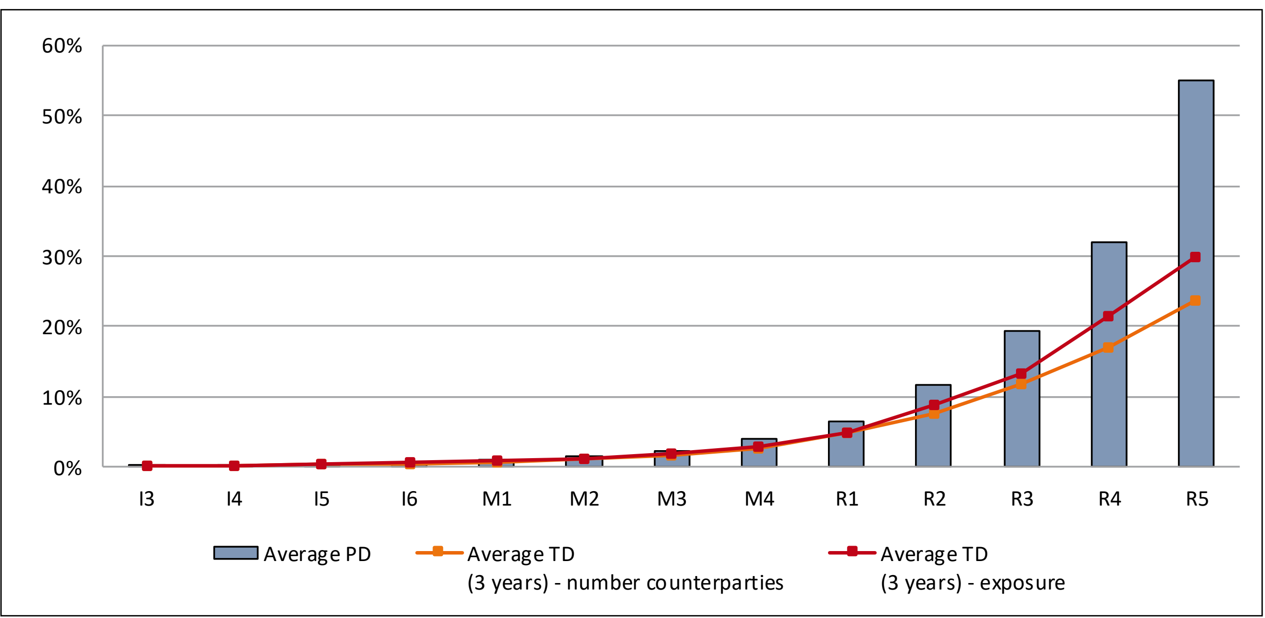
The default rate curves, calculated as the simple average on the performing reference dates of December 2017 – 2018 – 2019 (2018, 2019 and 2020 default windows[17]), showed a substantially monotonic increase as the rating class worsens, however with values that are never higher than the respective PD values for each rating class. With regard to the observation period, the default rates per exposure in the final part of the curve decrease for the worst rating classes, also as a result of the effective risk mitigation strategies implemented by the Group for the higher-risk exposures.
The performance of the model in terms of discriminating power is satisfactory, with an accuracy ratio for the last year of just under 68%.

[16] The definition of default, considered for the population of the charts and the EU CR9 table below for the Corporate segment, is the regulatory definition that includes all the default statuses envisaged: bad loans – UTPs – past due 180 days and 90 days.
[17] The performing reference date is the date on which the scope for comparison between PD and DR is defined; the observation window for the default event, for the definition, is one year (i.e. January 2020 - December 2020 for the reference date December 2019).

Comparison of PD and DR figures by rating class for the Retail SME regulatory segment

As part of its ongoing validation work, the Internal Validation - Credit Risk Internal Systems Unit periodically (on a half-yearly basis) compares the default rates[18] recorded on the models validated for IRB purposes with the average PDs by individual rating class. The default events, recorded from November 2019, were those identified based on the early adoption of the new Definition of Default (DoD).

For the assessment of the counterparties in the Retail SME segment, the distribution of PD and DR by rating class referring to the IRB validated portfolio is reported. The scope considered (three years of default observations: from 2018 to 2020) consists of the Small Business and Micro Business counterparties, which have had different regulatory PDs since 31 December 2018. Consequently, the average class PDs used for the chart below have been obtained by means of the weighted average of the individual average class PDs of the two sub-portfolios, with weightings based on the respective number of counterparties in the last three years.



The default rates are slightly lower than the average PDs obtained in the I and M rating macro classes[19], and much lower in the R rating macro class; they also show a monotonic trend that increases along the rating scale. The two default rate curves have very similar values in the I and M macro classes (they practically overlap), whereas in the R macro class the default rates by exposure are several percentage points higher than the default rates by number of counterparties. The performance of the models in terms of discriminating power is overall satisfactory, both for Small Business (Accuracy Ratio = 67.44%) and for Micro Business (AR = 62.93%).

Comparison of PD and DR figures by rating class for the Retail – Mortgage regulatory segment

As part of its ongoing validation work, the Internal Validation - Credit Risk Internal Systems Unit periodically (on a half-yearly basis) compares the default rates[20] recorded on the models validated for IRB purposes with the average PDs by individual rating class. The default events, recorded from November 2019, were those identified based on the early adoption of the new Definition of Default (DoD). In Q1-2021, the model will undergo a model change to align it to the new standard for default identification established by the EBA Guidelines.

The new Retail internal rating system, for which authorisation for its use was received in Q3 2018, is divided into the Mortgage and Other Retail sub-segments[21] and adopts a counterparty approach[22]. The chart below shows the breakdown by rating class for Retail Mortgage, using the same time periods as those described above for Corporate and Retail SME: performance reference dates December 2017 - 2018 - 2019 (default windows 2018, 2019 and 2020). The values were obtained from a rating calculation simulation using the new model for the first reference date (December 2017) and production data for the two most recent dates considered (December 2018 and December 2019).

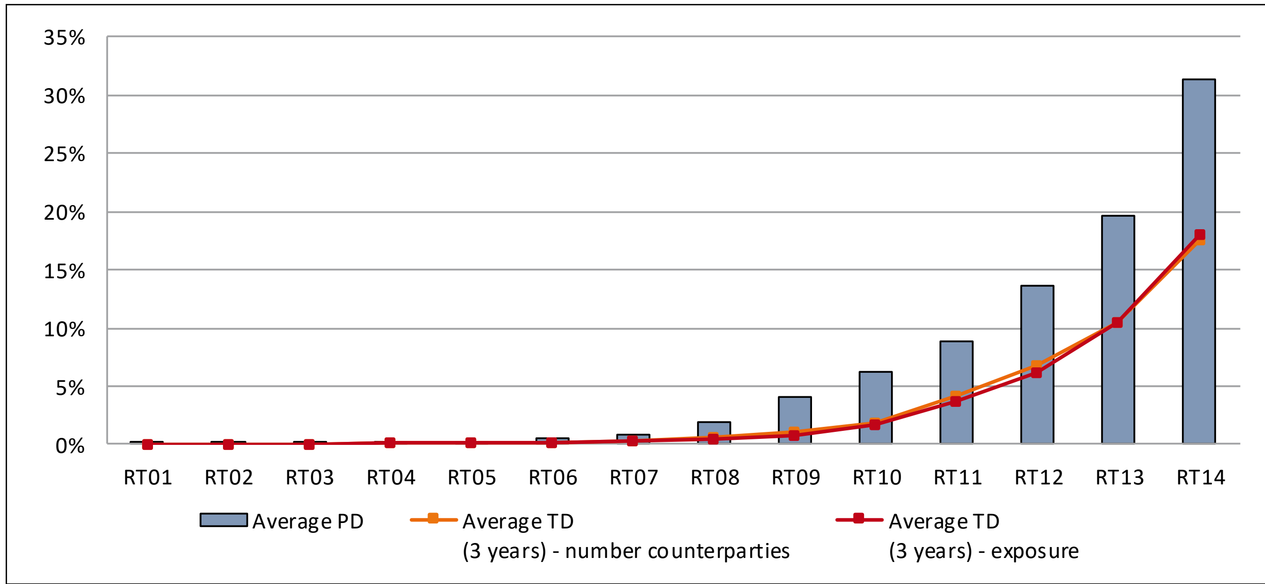
[18] The definition of default, considered for the population of the charts and the EU CR9 table below for the Retail SME segment, includes only the worst statuses of bad loans and UTPs, in line with the definition of default used in the model estimation/recalibration phase. The new Retail SME model, for which a model change application was sent to the ECB during Q4-2019 and which is awaiting validation by the ECB, also includes the past due 180 days and 90 days statuses.

[19] I, M and R rating macro classes means the aggregation, respectively, of the rating classes from I3 to I6, from M1 to M4, and from R1 to R5.

[20] The definition of default, considered for the population of the charts and the EU CR9 table below for the Retail segment (both Mortgage and Other), is the regulatory definition that includes all the default statuses envisaged: bad loans – UTPs – past due 180 days and 90 days.

[21] For Retail Mortgage this is a model change of the model already authorised and for Other Retail this is a first adoption.

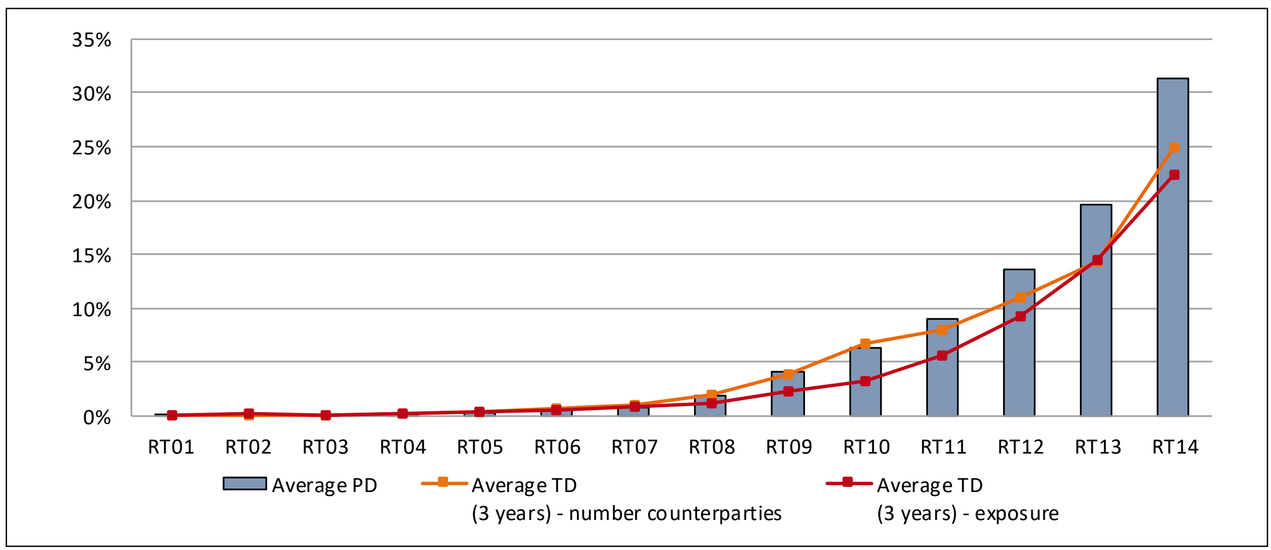
[22] The Retail Mortgage sub-segment therefore concerns all counterparties with at least one mortgage product in their relationships. The Other Retail sub-segment, on the other hand, groups together all the other retail counterparties.



There is a monotonic increase in the default rate as the rating class worsens, with similar values among the two default rate curves. The class PDs are higher, for all the classes, than the respective default rates: in particular, from RT09 to RT14, the PD value is at least around three percentage points higher than the two default rate values.
The performance of the model in terms of discriminating power is satisfactory, for Borrower Customers, with an accuracy ratio for the last year of just over 77%. Their small number does not enable robust performances for the Non-Borrower Customers and New Customers sub-scopes.

Comparison of PD and DR figures by rating class for the Other Retail regulatory segment

As part of its ongoing validation work, the Internal Validation - Credit Risk Internal Systems Unit periodically (on a half-yearly basis) compares the default rates recorded on the models validated for IRB purposes with the average PDs by individual rating class. The default events, recorded from November 2019, were those identified based on the early adoption of the new Definition of Default (DoD). In Q1-2021, the model will undergo a model change to align it to the new standard for default identification established by the EBA Guidelines.
The chart below compares PDs and default rates for the Other Retail scope, using the same time periods as those described above: performance reference dates December 2017 - 2018 - 2019 (default windows 2018, 2019 and 2020). The values were obtained from a rating calculation simulation using the new model for the first reference date (December 2017) and production data for the two most recent dates considered (December 2018 and December 2019).



There is a monotonic increase in the default rate as the rating class worsens, with PD values generally in line with the default rates for the first part of the distribution (up to RT07). In the second half of the distribution, the PD is significantly higher than the default rate curves (RT08 to RT14, compared to the default rate by exposure, and RT11 to RT14, compared to the default rate by counterparty).
The performance of the model in terms of discriminating power is satisfactory for two types of customers (Borrower Customers, Accuracy Ratio = 79.66% and New Customers, Accuracy Ratio = 66.58%) and partially satisfactory for the Non-Borrower Customers sub-scope (Accuracy Ratio = 48.33%).

Comparison of PD and DR figures by exposure class

The table below "EU CR9 – IRB approach – Backtesting of PD per exposure class" compares the PD and default rates, breaking down the portfolio by exposure class and PD scale as at the reporting date considered (31 December 2019).
The breakdown between the following portfolio models was considered for the exposure classes:

- Corporate (in this case, also including Large counterparties[23]);
- Retail SME (Small Business + Micro Business);
- Retail – Mortgage;
- Retail – Other.

The following authorised AIRB portfolio models, however, have not been considered for the analysis:

- Banks and Public Entities, subject to a recent internal re-estimate and consequent model change (application package sent to the ECB in Q1 2019 and awaiting final approval by the ECB);
- Structured Finance and RED[24], because their small number would not have provided significant data for the PD and default rate comparison.

The analysis therefore considered the most significant exposure classes or those that have not been recently re-estimated, for which consistent historical average default rates are available.
The table below shows the breakdown, in terms of RWAs as at 31 December 2020[25], of the exposure classes considered in the analysis:

Exposure class	RWA
Corporate (including Large Corporate)	59.06%
Sme Retail (Small Business + Micro Business)	2.96%
Retail - Exposures secured by real estate assets	12.48%
Retail - Other	4.36%
Other (including defaulted exposures)	21.14%

Although it is numerically less significant, the Corporate exposure class is the most impacted class in terms of RWAs. The exposure classes Retail SME, Retail Mortgage (i.e. exposures secured by real estate) and Other Retail account for approximately 19.80% of RWAs (2.96% for Retail SME and 16.84% for the two Retail scopes).
For the PD scale for the table "EU CR9 – IRB approach – Backtesting of PD per exposure class", on the other hand, the PD range classes obtained from the allocation of the counterparties to the specific rating classes of each regulatory segment have been aggregated in accordance with the EBA guidelines[26]. The classes of the PD scale shown in the table, which are therefore unique for each exposure class, include seven classes for performing counterparties and one class for non-performing counterparties as at the reporting date.
Only counterparties with available ratings have been considered for the comparison between PD and DR: as a result, the subdivision dedicated to non-performing counterparties has not been populated in this table (or in the above charts comparing PD and DR) because model ratings and PDs have not been assigned to these counterparties[27].
As already noted above, the samples considered for the Retail exposure classes were obtained from calculation simulations or from partial extractions of development samples used in the estimation of the respective models.
The external rating equivalent column is not populated because these exposure classes do not refer to shadow rating models and therefore do not allow an unequivocal association between the rating classes of the "original" master scales and the agency external rating.
The comparison between the PD and DR for each exposure class therefore considers the average PDs (weighted with EAD or simple arithmetic weighting, respectively per exposure and per heading) as at the reporting date of 31 December 2019 and the average historical default rate (in terms of number of counterparties), obtained as an average over the last five years (2016, 2017, 2018, 2019 and 2020).

The comparison per individual exposure class and at total level shows that there is a general prevalence of the PDs over the historical average DR for all the comparisons due to the lower risk of the internal portfolio in recent years. Specifically, with regard to the various portfolios:

- for Corporate, the PD values (both simple and weighted) for the first two PD classes and at total level (i.e. PD = 1.35%/2.10% vs. average DR = 1.83%) are sometimes lower than the historical average DR, whereas the level of the PDs is always higher than the average historical DR for all the other PD classes;
- for Retail SME, both at total level (i.e. PD = 1.86%/2.22% vs. average DR = 1.65%) and for the individual rating classes, the arithmetic and weighted average PDs are higher than the historical average DR, also due to the new PD values adopted for the Micro Business sub-portfolio;
- for Retail – Mortgages, the PD values (both simple and weighted) per individual PD class and at total level (i.e. PD = 1.40%/1.42% vs. average DR = 0.69%) are significantly higher than the historical average DR;

[23] Given their small number and uniform PD range across all portfolios envisaged by the EBA guidelines, the Large Corporate counterparties have been considered together with the Corporate Domestic model previously also considered for the comparison between PD and default rates. It was not possible to measure them together with the Corporate Domestic counterparties in the previous comparison, concerning the historical average DR over the last three years, due to the different master scales adopted by the two models.

[24] Model change for these models planned for the latter part of 2021.

[25] Figures taken from the reporting source at the reporting date 31/12/2020.

[26] Reference to "EBA/GL/2016/11, version 2".

[27] Measured instead using PD = 100% to calculate the capital requirements.

- for Retail – Other, the PD values (both simple and weighted) for the first five classes and at total level (i.e. PD = 2.43%/2.08% vs. average DR = 2.04%) are in line with the historical average DR, whereas for the last two classes the PD is significantly more prevalent than the historical average DR.

It should be noted that for the comparisons in the above charts and the table EU CR9 below, the COVID-19 pandemic did not have any significant effects on the 2020 default rate and the historical average DR.

IRB approach – Backtesting of PD per exposure class (EU CR9 EBA GL 2016/11)

(millions of euro)

Exposure class	PD range (%)	External rating equivalent (*)	Weighted average PD (%)	Arithmetic average PD by obligors (%)	Number of obligors		Defaulted obligors in the year	Of which new obligors	Average historical annual default rate
					End of previous year	End of the year			
Corporate (including Large Corporate)	0,00 to <0,15	-	0.08	0.12	3,709	3,262	7	-	0.13
	0,15 to <0,25	-	0.19	0.20	6,287	5,866	11	-	0.24
	0,25 to <0,50	-	0.36	0.38	19,334	17,459	46	-	0.24
	0,50 to <0,75	-	0.64	0.61	10,810	11,339	28	-	0.34
	0,75 to <2,50	-	1.43	1.46	25,410	24,991	201	-	0.94
	2,50 to <10,00	-	5.03	5.10	15,229	15,363	547	-	3.92
	10,00 to <100,00	-	18.22	17.54	2,538	2,438	313	-	13.59
	100,00 (default) (**)	-	-	-	-	-	-	-	-
	Total	**-**	**1.35**	**2.10**	**83,317**	**80,718**	**1,153**	**-**	**1.83**
Sme Retail (Small Business + Micro Business)	0,00 to <0,15	-	0.12	0.12	26,624	29,605	7	-	0.04
	0,15 to <0,25	-	0.15	0.16	48,185	51,254	54	-	0.09
	0,25 to <0,50	-	0.31	0.34	76,995	94,996	272	-	0.29
	0,50 to <0,75	-	0.68	0.68	27,298	31,558	206	-	0.62
	0,75 to <2,50	-	1.53	1.60	66,239	68,986	952	-	1.18
	2,50 to <10,00	-	3.87	4.36	57,299	57,082	1,819	-	2.93
	10,00 to <100,00	-	18.53	18.70	15,830	16,869	1,759	-	10.48
	100,00 (default) (**)	-	-	-	-	-	-	-	-
	Total	**-**	**1.86**	**2.22**	**318,470**	**350,350**	**5,069**	**-**	**1.65**
Retail - Mortgage	0,00 to <0,15	-	0.09	0.09	263,208	293,337	94	1	0.03
	0,15 to <0,25	-	0.17	0.17	128,887	130,176	110	-	0.08
	0,25 to <0,50	-	0.28	0.28	155,393	154,020	226	-	0.12
	0,50 to <0,75	-	0.51	0.51	90,416	86,692	206	1	0.20
	0,75 to <2,50	-	1.28	1.31	253,613	236,007	1,336	1	0.47
	2,50 to <10,00	-	5.65	5.67	82,357	78,720	1,922	-	2.03
	10,00 to <100,00	-	19.60	19.47	24,711	23,393	2,774	1	11.10
	100,00 (default) (**)	-	-	-	-	-	-	-	-
	Total	**-**	**1.40**	**1.42**	**998,585**	**1,002,345**	**6,668**	**4**	**0.69**
Retail - Other	0,00 to <0,15	-	0.07	0.06	749,345	791,105	304	2	0.07
	0,15 to <0,25	-	0.17	0.17	284,735	280,328	329	1	0.19
	0,25 to <0,50	-	0.28	0.28	312,787	297,052	549	1	0.31
	0,50 to <0,75	-	0.51	0.51	226,418	209,034	770	-	0.52
	0,75 to <2,50	-	1.33	1.34	629,929	581,537	5,560	3	1.23
	2,50 to <10,00	-	5.72	5.90	418,653	437,465	14,980	6	5.16
	10,00 to <100,00	-	19.38	19.21	107,004	119,292	13,266	3	14.60
	100,00 (default) (**)	-	-	-	-	-	-	-	-
	Total	**-**	**2.43**	**2.08**	**2,728,871**	**2,715,813**	**35,758**	**16**	**2.04**

(*) The column regarding the external rating equivalent has not been populated since these exposure classes are not subject to shadow rating approaches, and an unambiguous association between the "original" master scale rating class and external agency rating is therefore not possible.

(**) PD scale concerning the non performing counterparties has not been populated since the comparison between TD and PD is available only for performing counterparties at the selected reference dates.

Section 10 - Credit risk mitigation techniques

Qualitative disclosure

Policies and processes for, and indication of the extent to which the Bank makes use of, on- and off-balance sheet netting.

The Group entered into (bilateral) netting arrangements that, in the event of default of the counterparty, enable the netting off of mutual claims and obligations in relation to transactions in financial instruments and credit derivatives, as well as securities financing transactions (SFTs).
For derivative contracts, this takes place through the signature of ISDA agreements, which enable the management and mitigation of credit risk. In compliance with the conditions laid down by the Supervisory regulations, these agreements permit the reduction of the absorption of regulatory capital.
For OTC derivatives, the Group also uses netting services provided by central counterparties or clearing brokers, also for the purpose of complying with the clearing requirements established by the EMIR. This is a clearing service for the more standardised OTC derivative contracts (e.g. plain vanilla interest rate derivatives and CDS Indexes). The individual transactions, previously concluded between the subscribers to the service, are subsequently transferred to the clearing house or clearing broker, which, in the same way as for listed derivatives, becomes the counterparty for the original contracting parties. The central counterparty or the broker provide for the settlement of the daily variation margin on the individual transactions, so that the mutual claims and obligations are automatically netted off against each other.
The Group establishes margin agreements to mitigate the risk relating to transactions in OTC derivatives and SFTs (respectively the Credit Support Annex and Global Master Repurchase Agreement/OSLA/GMSLA) with bilateral counterparties.
In particular, for non-centrally cleared OTC derivatives, from 1 March 2017, the EMIR requires daily margining with Financial counterparties and above threshold Non-Financial counterparties (NFCs+).
Also under the EMIR, the Group entities have been subject, with effect from 1 September 2019, to an initial margin exchange requirement for non-centrally cleared OTC derivative transactions concluded with above threshold Financial and Non-Financial counterparties (NFCs+) already subject to the same obligation. The bilateral exchange of initial margins results in an additional counterparty risk mitigation that will be reflected in the capital requirements subject to ECB permission.
Around half the OTC derivatives deals are covered by margining arrangements. Of these, around half are centrally cleared.
For Forex transactions, the Group's subscription to the CLS – Continuous Linked Settlement circuit, and to the corresponding settlement services on a payment-versus-payment basis has enabled the mitigation of the settlement risk at the time of mutual payments with counterparties.
With regard to the SFTs, almost all the deals were margined daily, via Global Master Repurchase Agreements/OSLAs/GMSLAs, through cash or securities, with central or bilateral counterparties.

For more detailed information, reference should be made to the quantitative disclosure indicated in the Section on Counterparty risk of this document.

Policies and processes for collateral evaluation and management

The granting of credit with the acquisition of collateral is subject to internal rules and processes – for the evaluation of the asset, the acceptance of the guarantee and the control of its value – differentiated according to pledged and mortgage collateral. The eventual enforcement of the guarantee is handled by specialist departments, which are responsible for credit recovery. In any case, the presence of collateral does not grant exemption from a complete assessment of the credit risk, mainly concentrated on the borrower's ability to meet the obligations assumed, irrespective of the associated guarantee. Under certain conditions (type of counterparty, rating assigned, type of contract), the collateral has an impact, as a mitigating factor, on the determination of the approval limits. Mitigating factors are defined based on elements that contribute to reducing the potential losses for the Bank in the case of default of the counterparty. For operational purposes, the extent of the mitigating factors is determined based on a series of factors. Among these, the Loss Given Default (LGD) is of major importance. This is expressed by a percentage, which is higher in the case of non-guaranteed interventions and lower, on the contrary, in the presence of credit risk mitigation elements.
Guarantees received are included in the calculation of the Loss Given Default, based on (i) the initial value; (ii) the strength of said value over time; and (iii) the ease of realisation.
The guarantees received with the highest impact include:

- pledges on financial assets, differentiated based on the underlying (cash, OECD government bonds, financial instruments issued by the Bank, shares and bonds quoted on regulated markets, mutual funds, etc.);
- mortgages on real estate, separated based on the use of the asset (residential, industrial property, agricultural funds/properties, commercial, industrial properties, etc.);

provided that:

- they are provided without any time limits or, if the collateral has an expiry date, this is not before the expiry of the loan guaranteed;

- they are acquired in a form that is enforceable against third parties and in accordance with the procedures established by the regulations prevailing at the time.

During the credit granting phase, the assessment of the pledged collateral is based on the actual value, namely the market value for financial instruments listed in a regulated market, or, otherwise, the estimated realisable value. The resulting value is multiplied by the haircut percentage rates, differentiated according to the financial instruments or set of financial instruments accepted as collateral.

In order to limit the risks of absence or termination of the protection, specific safeguards are in place, including: restoration of the collateral in the presence of a reduction of the initial value of the assets and the extension of the pledge to include sums from the redemption of the financial instruments.

With regard to real estate collateral, separate processes and methods are aimed at ensuring the proper assessment and monitoring of the value of the properties accepted as collateral.

Assets are evaluated, prior to the decision to grant the credit, using both internal and external experts. The external experts are included in a special list of professionals accredited on the basis of an individual verification of their capabilities and experience and the characteristics of absolute professional independence. The valuation of residential properties used as collateral for mortgage loans to private individuals is mainly assigned to specialised companies. The work of the experts is monitored on an ongoing basis, by means of statistical verifications and spot checks carried out centrally.

The experts' duties are scaled on the basis of both the amount of the transaction and the property types. A system is also in place for the review by the central functions of the expert surveys for large-scale transactions.

The experts are required to produce estimates on the basis of standardised expert reports, differentiated according to the valuation method to be applied and the building category of the asset offered as collateral.

In order to ensure that the valuation criteria and approaches are consistent, a property valuation code ("Property Valuation rules for credit purposes") is in force, which ensures the comparability of the estimates, and guarantees that the value of the property is calculated clearly and transparently on a prudential basis. The content of the internal Code is consistent with the "Guidelines for the valuation of properties securing credit exposures" promoted by the Italian Banking Association and with the "European Valuation Standards".

Property valuations are managed through a specific integrated platform (the "Appraisals Portal") covering the entire expert analysis phase, ensuring that assignments are properly awarded, on an independent basis and according to objective criteria, the workflow is thoroughly monitored, valuation standards are correctly applied and all information and documents regarding real estate are kept.

During the credit granting phase, the valuation of the properties is based on the prudential market value or, for properties under construction, on the construction cost. The resulting value is multiplied by the haircut percentages, differentiated on the basis of the property's designated use.

The value of the real estate collateral is updated on a monthly basis by using the prices/coefficients acquired from an external supplier offering proven skills and a solid reputation for surveying and measuring the market prices of Italian real estate assets.

The revaluation takes place by adopting four main methods:

- Survey value index method:
  the method uses real estate price revaluation indexes to be applied to the survey value of the property in question. It is the main revaluation model, adopted when the survey value is considered reliable through specific tests.
- Comparables method:
  the method assumes market values per square metre and applies them on the basis of the size (in square meters) of the property. The method is used when the survey value is not considered to be reliable. It is also used as "backtesting" implied in the survey value.
- Financing value index method:
  the method applies the price revaluation indexes to 125% of the original value of the financing (thus it is prudentially assumed that the financing was originally disbursed with the maximum LtV of 80%). The method is applied in the presence of subdivisions or if the survey value is not reliable and it is impossible to apply the comparables.
- Cost method:
  in case of properties under construction, market practices suggest a valuation based on the estimate of the overall costs incurred in correspondence with the work progress made on the property in question.

The value of properties under construction is monitored on an ongoing basis by experts who perform inspections, verify the progress of the works and prepare technical reports for loan disbursement.

The valuation is duly updated in the event of limitation or splitting of the mortgage, of damage to the property, significant impairment losses reported by market indicators used to monitor fair value and, in any case, according to the maturities established for the most significant exposures, or when there are real estate guarantees securing non-performing loans.

To cover the residual risks, the borrower is required to provide an insurance policy against damage. The insurable value is determined by a survey, on the basis of the property's reconstruction cost.

Main types of guarantor and credit derivative counterparty and their creditworthiness

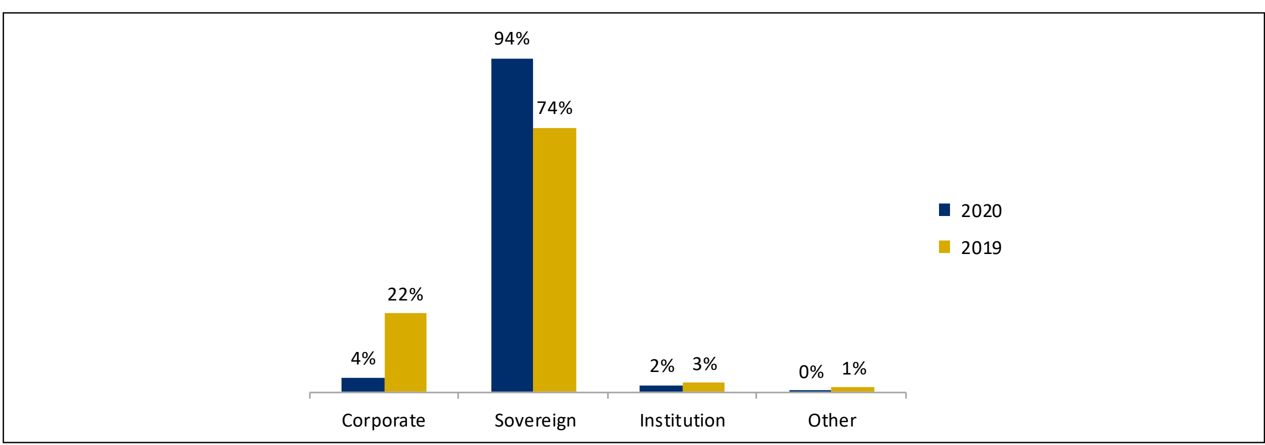
With regard to credit derivatives received as collateral, in December 2020 the single name transaction Leonardo S.p.A. (around 45 million euro) was secured by a guarantee from BNP PARIBAS with a BBB- rating.

Information about market or credit risk concentrations under the credit risk mitigation instruments used

Personal guarantees

Personal guarantees, as noted in the quantitative disclosure, cover a limited amount of the overall credit exposure. Compared to the previous period, there was a significant increase in the share of Sovereign guarantors (+20%), mainly represented by the Italian Government, in particular the Italian Treasury and the Ministry of the Economy and Finance, for the assistance provided to businesses as part of the measures to combat the COVID-19 crisis. The share for that class was 94% of the total (74% in December 2019), while the share for Corporate guarantors decreased to 4% (22% in December 2019) and the share for Bank/Public Entity guarantors remained marginal at 2% (3% in December 2019).

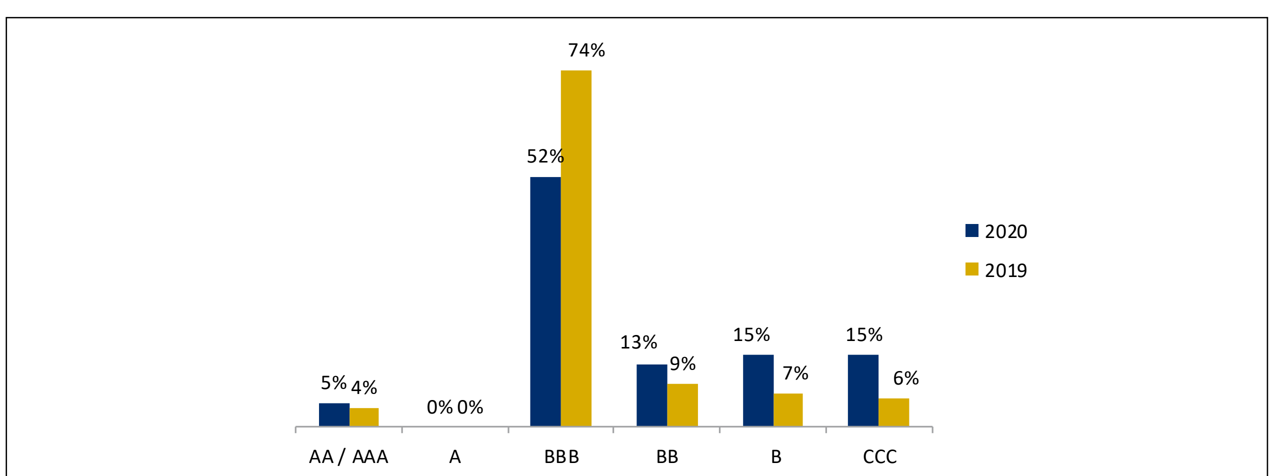
Personal guarantees by type of guarantor



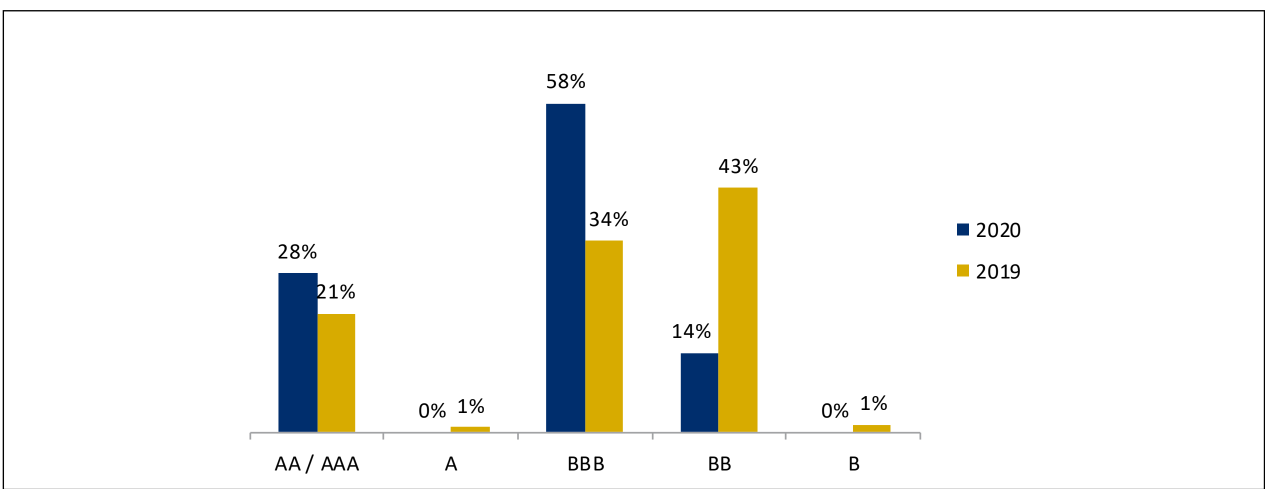
Personal guarantees by guarantor rating classes

By type of personal guarantee, guarantors show a high credit quality, with 98% investment-grade.
The breakdown by rating class shows Corporate guarantors classified as investment-grade with a share of 56% (78% in December 2019) and Bank/Public Entity guarantors classified as investment-grade with a share of 86% (56% in December 2019).
With regard to other segment personal guarantees, the breakdown by rating class shows 100% guarantors classified as investment grade, in line with the figures of December 2019.
Corporate and Bank/Public Entity guarantors are assigned ratings from the internal model, while guarantors of other segments are assigned agency ratings.

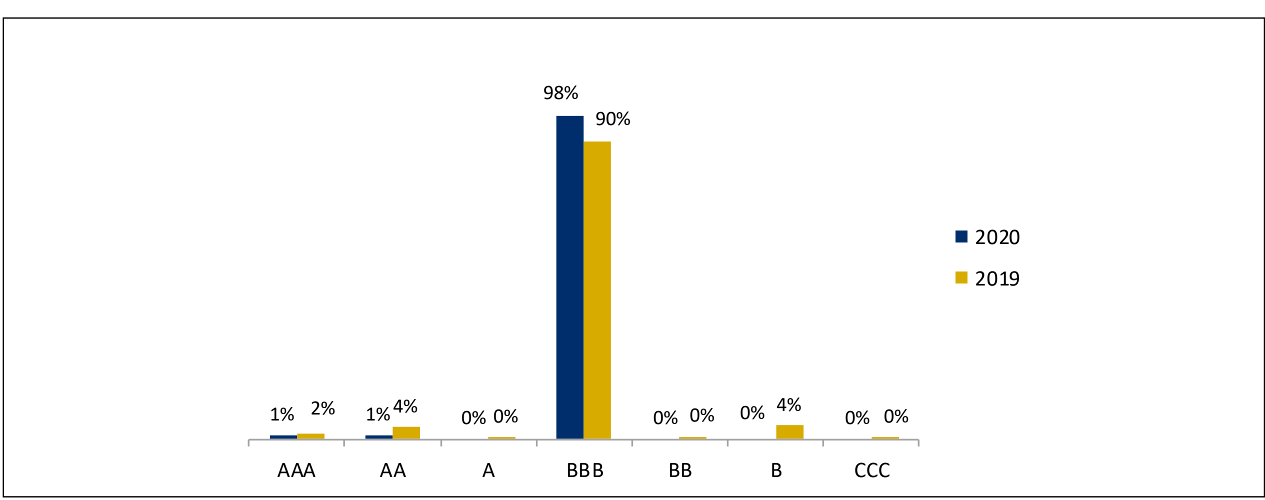
Corporate personal guarantees by guarantor rating classes



Bank/Public Entity personal guarantees by guarantor rating classes



Other segment personal guarantees by guarantor rating classes



Financial collateral

The majority of the financial collateral eligible for risk mitigation relates to cash transactions and repurchase agreements. For the repurchase agreements, the main issuers have ratings in the investment-grade area and all of these securities have a maturity of less than 5 years.
Other financial collateral relates to pledges on cash deposits, bonds and funds.

Other collateral

Other collateral consists almost entirely of mortgages on real estate assets. Although there are no particular concentrations, for example in individual assets or particular geographical areas, the major amount of mortgage lending is in the Bank's exposure to a systematic risk factor represented by the prices of the real estate assets. This exposure, which is naturally inherent to lending operations, is considered using appropriate analyses within the ICAAP process.

Quantitative disclosure

As required by the applicable regulations, this Section reports the amounts of the exposures, split between secured and unsecured. The secured exposures are also broken down by type of guarantee. In addition, the secured exposures are broken down by calculation method for the capital requirements: standardised and foundation IRB.

CRM techniques – Overview (EU CR3 LG EBA 2016/11)

This table shows the exposure classes – Loans and Debt Securities – based on the degree of protection provided by the contractual structure, distinguishing between "Unsecured exposures" and "Secured exposures", with a breakdown by type of guarantee: collateral, personal guarantees, and exposures secured by credit derivatives.

(millions of euro)

		Exposures unsecured	Exposures secured	Exposures secured by collateral	Exposures secured by personal guarantees	Exposures secured by credit derivatives
1	Total loans (*)	329,391	232,487	176,649	55,793	45
2	Total debt securities	99,744	133	-	133	-
3	**Total exposures as at 31 December 2020 (**)**	**703,210**	**246,582**	**183,553**	**62,984**	**45**
4	*Of which defaulted*	*5,325*	*10,484*	*8,861*	*1,623*	-

(*) In addition to loans, the caption includes other items that have been included in credit risk from a prudential standpoint.

(**) In addition to loans and debt securities, the amount of "Total exposures" includes equity instruments, property and equipment, cash and cash equivalents and off-balance sheet exposures.

This table shows the exposure classes – Loans and Debt Securities – based on the degree of protection provided by the contractual structure, distinguishing between "Unsecured exposures" and "Secured exposures", with a breakdown by type of guarantee: collateral, personal guarantees, and exposures secured by credit derivatives. The consolidated aggregate amounted to 950 billion euro, of which 781 billion euro attributable to ISP and 169 billion euro to UBI. In the interests of immediate continuity and comparability with the previous company reports, the trends and main changes during the half-year for the ISP Group, net of the former UBI Group, are detailed below. The trends and main changes relating to the UBI Group are provided at the end of this section.
With regard to ISP, in the context of a considerable expansion of the overall aggregate (+1.8% in net values compared to the end of the first half), driven by the increase in secured exposures, reflecting the measures to support the economy adopted by the government to counter the effects of the epidemic crisis, the relative weight of secured exposures (40.1%) confirmed the favourable trend already seen in the previous year. The progressive shift of the portfolio towards higher levels of protection and risk mitigation (+2.2%), together with the sharp reduction in the net book value of the exposures in default (around -3.2 billion euro half year and -3.6 billion euro full year), confirmed the continued and significant improvement in the portfolio's risk profile thanks to the effective de-risking strategy implemented through securitisations.
The level of secured exposures also grew for UBI, with an increase of more than 5 billion euro in the personal guarantees component, reflecting the growth in government-guaranteed loans, whereas there were no changes in debt securities, classified under unsecured exposures.

Breakdown of collateral, personal guarantees or credit derivatives by exposure class

Value of the guarantees subject to the standardised approach

(millions of euro)

Regulatory portfolio	31.12.2020		31.12.2019	
	Collateral	Personal guarantees or credit derivatives	Collateral	Personal guarantees or credit derivatives
Exposures to or secured by governments and central banks	120	49,500	-	21,461
Exposures to or secured by regional or local authorities	-	209	-	193
Exposures to or secured by public sector organisations	6	17	10	154
Exposures to or secured by multilateral development banks	-	263	165	128
Exposures to or secured by international organisations	-	-	-	-
Exposures to or secured by supervised institutions	4,889	273	1,107	207
Exposures to or secured by corporates and other entities	3,751	294	3,418	488
Retail exposures	3,827	19	3,705	13
Exposures secured by real estate	1	-	3	-
Defaulted exposures	27	-	24	-
High-risk exposures	18	-	32	-
Exposures in the form of covered bonds	-	-	-	-
Short-term exposures to corporates and other entities or supervised institutions	-	-	-	-
Exposures to UCI	276	-	225	-
Other exposures	-	5	-	-
Securitisations	-	-	-	-
Total	**12,915**	**50,580**	**8,689**	**22,644**

Under the current regulations, when the comprehensive method is adopted (as Intesa Sanpaolo does in the majority of cases), financial collateral (e.g. cash collateral or securities received as pledges) reduces risk exposure, whereas personal guarantees (and the remaining collateral - simplified method) transfer the related risk to the guarantor's regulatory portfolio; consequently, the representation of personal guarantees included in the table above is the guarantor's responsibility.
With regard to the increase in the value of collateral compared to 2019, this was due to the contribution of the UBI Group (around 4 billion euro). In order to optimise capital absorption, a transaction with the counterparty SACE to hedge the risk of expropriation of the compulsory and unrestricted reserves of the ISP Group banks operating in Albania, Bosnia, Serbia, Egypt and Moldova was also maintained.
Personal guarantees, with regard to the Central Government portfolio, mainly reflected the guarantees provided by the Ministry of Finance, as part of the measures adopted to counter the COVID-19 crisis, in addition to the contribution from the UBI Group (around 6.7 billion euro).
It is also noted that the column "Personal guarantees or credit derivatives" consists almost exclusively of guarantees received in the form of personal guarantees, as credit derivatives represent an insignificant proportion of the total guarantees of the Intesa Sanpaolo Group within the standardised approach.
With regard to the exposures secured by properties, the value of the mortgage collateral is not shown, because – in accordance with the applicable regulations – these exposures are subject to preferential weighting factors. If there is any other collateral, this is shown in the above table.

Value of the guarantees subject to the Foundation IRB approach

(millions of euro)

Regulatory portfolio	31.12.2020		31.12.2019	
	Collateral	Personal guarantees or credit derivatives	Collateral	Personal guarantees or credit derivatives
Exposures to or secured by corporates				
Specialised lending	-	-	-	-
SMEs	2	-	2	-
Other corporates	3	-	3	-
Specialised lending - slotting criteria	-	-	-	-
Total	**5**	**-**	**5**	**-**

The secured exposures subject to the Foundation IRB approach relate to VUB Banka and Banka Intesa Sanpaolo D.D. (former Banka Koper), which are the only Group companies that still use the Foundation IRB approach after migration by the Group's other companies to the Advanced approaches (AIRB).
Exposures secured by mortgage collateral for private individuals or retail customers, for which the Group applies the IRB approach (other than the Foundation IRB approach), are not included in this Section inasmuch as they are specifically indicated in the Section on the use of the IRB approaches.

Section 11 - Counterparty risk

Qualitative disclosure

Counterparty risk, in accordance with the Regulatory provisions, is a specific type of credit risk and represents the risk of a counterparty in a transaction defaulting before the final settlement of the cash flows involved in the transaction. The regulations lay down specific rules for the quantification of the amount of the exposures while referring to those governing credit risk for the determination of risk weightings.
In accordance with these regulations, counterparty risk is calculated for the following categories of transactions:

- over-the-counter (OTC) financial and credit derivatives;
- SFTs – Securities Financial Transactions (repurchase agreements and securities lending);
- transactions with medium to long-term settlement.

The framework provides for the uniform treatment of counterparty risk regardless of the book in which the exposures have been classified (the banking and regulatory trading books are both subject to capital requirements for counterparty risk). For the purposes of reducing the amount of the exposures, recognition of various types of contractual netting arrangements ("Master netting agreements") is permitted, subject to compliance with statutory requirements.
Following the authorisation by the Supervisory Authority, the Parent Company has adopted the Internal Models approach for regulatory reporting purposes for the counterparty requirement for OTC - Over the Counter contracts, ETD - Exchange Traded Derivative contracts and SFTs - Securities Financing Transactions.
The internal model is applied in accordance with the Basel 3 instructions, so that the requirement for counterparty risk is calculated as the sum of the default risk and the CVA - Credit Value Adjustment risk. The risk of default is determined starting from an EAD that is the maximum between the EAD calculated according to the current risk parameters and that calculated according to risk parameters based on a stress period.
The CVA Capital Charge is calculated as the sum between the CVA VaR calculated on the movements in credit spreads of counterparties registered in the last year and that calculated on the movements during a stress period that has currently been identified as the 2011-2012 period.
Potential exposure (estimated with the actual average PFE – Potential Future Exposure) has been adopted by the Parent Company for the purposes of operational measurement of uses of credit lines for replacement risk, for OTC derivatives and SFTs.
For the rest of the Group, the definition of the use of credit lines for transactions in OTC derivatives involves the application of the greater of the mark-to-market and the add-on to determine the credit exposure, taking into account any existing netting and collateral agreements. Add-ons indicate the maximum potential future exposure (95th percentile), regularly estimated by the Financial and Market Risks Head Office Department, by product type and maturity. The loan facility for OTC transactions is defined on the same basis as the on-balance sheet exposures, in consideration of the specific elements of the OTC derivative transactions, and transactions for which the exposure may change over time as the underlying risk factors change.
PFE measurements are calculated daily by the Financial and Market Risks Head Office Department, analysed and sent to the monitoring systems for the credit lines for OTC derivatives and SFTs. The Financial and Market Risks Head Office Department also provides a daily report on the positions with a use above 70%, to support the facility monitoring activities, with indication of the financial analysis underlying the change of the PFE measurement over time. For entities or instruments outside the scope of application of PFE, the grid for the operational add-ons forms part of the monitoring systems for the credit lines for OTC derivatives and SFTs that apply the calculation algorithm on a daily basis to quantify the credit exposure to a particular counterparty.
The Group makes extensive use of netting and cash collateral agreements to substantially mitigate the exposure to counterparties, particularly towards banks and financial institutions.
In order for risk to be managed effectively within the Bank, the risk measurement system must be integrated into decision-making processes and the management of company operations. To that end, in accordance with the "use test" requirement of Basel 3, the Group has adopted an operating model aimed at obtaining the estimate, also for regulatory purposes, of the statistical measures that enable the analysis of the evolution of the risk of the derivatives over time. Particular attention was dedicated to the update of the management regulatory framework with regard to the eligibility of collateral for trading in Security Financing Transactions.
The organisational functions involved, as described in the Bank's internal regulations, are:

- the Financial and Market Risks Head Office Department, which is responsible for the counterparty risk measurement system by defining calculation methods, producing and analysing measures of exposure;
- the Level I and Level II control functions that use the measurements produced to monitor the assumed positions;
- the marketing and credit functions that draw on the foregoing measures as part of the granting process to determine the limits of the credit lines.

For the Parent Company, the following company processes were implemented to complete the risk analysis process for the exposure measures implemented over time following the developments discussed above:
- definition and periodic calculation of stress tests on market scenarios and joint market/credit scenarios on counterparty risk measures;
- definition and periodic analysis of Wrong-Way Risk, i.e. the risk of a positive correlation between the future exposure to a counterparty and that counterparty's probability of default;
- definition and monitoring of management limits at the portfolio level authorised by the Group Financial Risk Committee for derivatives transactions and SFTs;
- contribution of collateral inflow/outflow risk measures, calculated on the basis of the internal counterparty risk model, for OTC derivative transactions and SFTs with collateral agreements (CSA);
- backtesting: Basel 3 requires to produce backtesting analyses in order to test the appropriateness of the model. Tests are carried out on risk factors, financial instrument and netting set;
- reporting to the management of measures calculated using the internal exposure model, capital requirement, level of use of management limits, results of stress tests and analyses of wrong-way risk.

The backtesting programme, defined on the basis of Basel 3 requirements, provides for the maintenance of time series of forecasts obtained from the calculation model and its results on:
- risk factors;
- financial instruments;
- netting set.

Through statistical analysis, supported by qualitative analyses for the forecasting horizons for which it is not possible to accumulate sufficient observations, the predictive ability of the model is measured. An internal policy was defined to enable corrective procedures in case the model shows significant limitations in the representation of the underlying risks or the changed market conditions require and adjustment thereof.
The backtesting results are reported in the quarterly disclosure to the Supervisory Authority.
Intesa Sanpaolo has adopted a programme of stress tests on the counterparty risk with the objective of assessing the effects connected with the occurrence of extreme scenarios relating to market and credit factors that influence counterparty risk exposures for OTC derivatives and SFTs alike.
The stress tests allow the estimate of potential sudden liquidity needs of the Bank with regard to the collateralised exposures, due to extreme movements of the risk factors underlying transactions in OTC derivatives and SFTs.
The stress test programme allows the identification of the market scenarios the Bank is mostly exposed to and represents a risk analysis tool that complements the management and regulatory metrics.
The stress test programme is based on the application of mono-factor and multi-factor scenarios to the "reference set", which is the set of market data used for the pricing of the financial instruments included within the scope of the internal model. Analysed in addition to the stress on the market risk factors is the effect of the deterioration of the creditworthiness of the counterparty through the joint stress on market and credit variables (PD, LGD).
The generic Wrong-Way Risk (WWR) arises when there is positive correlation between the probability of default of a counterparty and the exposure to the same counterparty.
A methodology is followed to identify the generic WWR, which uses the results from the stress tests conducted as part of the stress testing programme for the counterparty risk, focusing on the counterparties whose credit spread is more historically correlated to the risk factors identified by the stress tests.
The reports and the analysis of the results are aimed at highlighting the most significant effects at portfolio level, of segments of counterparties or individual counterparties.
The specific WWR arises in case of positive correlation between the future exposure towards a counterparty and the probability of its default due to the nature of the transactions with this counterparty, or in case of a legal connection between the counterparty and the issuer of the derivative's underlying.
A methodology is followed to identify the specific WWR without legal connection, which is based on the analysis of the relation between the Mark-To-Market forecasts of the portfolio of a counterparty and the credit spread forecasts of the same counterparty, in the various scenarios of the EPE model, at a certain future moment.
As part of the specific WWR with legal connection, an organisation process has been defined in order to identify, report, authorise and monitor in a specific manner the transactions involving such risk, also for the purposes of the depreciative treatment established by the regulations in terms of capital requirement.
In order to consistently represent and monitor the overall risk profile in terms of counterparty risk generated by transactions in derivative instruments and SFTs, the Group Financial Risk Committee has approved a structure of specific limits, monitored by the Financial and Market Risks Head Office Department, for the Parent Company, comprising:
- a regulatory capital limit, calculated with the internal model on the counterparty risk, with the formulas set by the Basel 3 requirements;
- a Default Risk Capital Charge limit that measures the exposure to the default risk of the counterparties of derivative transactions and SFTs, calculated with internal metrics in terms of unexpected loss over a time period of one year;
- a CVA Risk Capital Charge limit that measures the exposure to the risk of deterioration in the creditworthiness of the counterparties of derivative transactions, calculated according to the scope and metrics defined in the regulations;
- a CVA VaR limit that measures the exposure to the risk of deterioration in the creditworthiness of the counterparties of derivative transactions, calculated according to the internal scope and metrics (Pillar 2);
- a warning limit for liquidity outflows in the event of market stress, which measures the possible greater liquidity needed due to a change in value of margined exposures;
- generic and specific wrong-way risk (WWR) thresholds that signal a possible higher risk deriving from the correlation between the exposures to replacement risk and the creditworthiness of the counterparty.

These limits (set according to the Bank's risk appetite in terms of counterparty risk and based on the maximum use calculated in stress conditions) enable synthetic and uniform control of the risk exposure levels for the derivative transactions and SFTs of Intesa Sanpaolo's portfolios. Adopting such indicators also results in the consolidation, through a process of subsequent

aggregations, of the exposure to different types of risk in the individual activity segments (for both collateralised and non-collateralised counterparties) to obtain the measurement of the overall exposure at Legal Entity level.
The internal counterparty risk model allows the estimate of the liquidity requirement deriving from collateralised OTC derivatives and SFTs (in terms of inflow and outflow of collateral), by predicting the expected variation of the Mark-To-Market. These measures are aimed at feeding the system of the Financial and Market Risks Head Office Department that measures the liquidity risk (Liquidity Risk System), while guaranteeing the information details needed to develop the various measurement metrics currently set for internal purposes (Liquidity Policy) and for the weekly liquidity report to the Supervisory Authority, and are also the subject of the programme of stress tests on the counterparty risk.
The determination of fair value considers not only market factors and the nature of the contract (maturity, type of contract, etc.), but also own credit quality and that of the counterparty in relation to the current and potential exposure. Compared to the adjustment of the Mark-To-Market through the calculation of the Credit Risk Adjustment (CRA), as required by IFRS 13 this measurement includes the calculation of own credit risk in valuing the Fair Value, to include the non-performance risk inclusive of the issuer's risk in the valuation of OTC derivatives.
In order to comply with the new standard, a new calculation model was developed – the Bilateral Credit Value Adjustment (bCVA) – which, in addition to the effects of changes in the counterparty credit rating (previously subject to the credit risk adjustment methodology, CRA), also takes fully into account the changes in own credit rating (Debt Value Adjustment - DVA) and identifies a series of refinements to the previous methodology. The bCVA has two addends, calculated by considering the possibility that both counterparties go bankrupt, known as the Credit Value Adjustment (CVA) and Debt Value Adjustment (DVA):

- the CVA (negative) takes into account scenarios whereby the Counterparty defaults before the Bank and the Bank has a positive exposure to the Counterparty. In these scenarios the Bank suffers a loss equal to the cost of replacing the derivative;
- the DVA (positive) takes into account scenarios whereby the Bank defaults before the Counterparty and has a negative exposure to the Counterparty. In these scenarios the Bank achieves a gain equal to the cost of replacing the derivative.

Compared to the calculation of the CRA, the bCVA model identifies a series of refinements of the pre-existing CRA methodology, including the calculation of the risk exposure valued by incorporating the average of the future exposures (positive/negative Expected Positive/Negative Exposure).
The prior Credit Risk Adjustment (CRA) calculation model is still valid for a number of products for which the bCVA model is still under development.

Scope of application and characteristics of the risk measurement and reporting system

Counterparty risk is a particular kind of credit risk associated with OTC derivative contracts that refers to the possibility that a counterparty may default before the contract expires. This risk, which is often referred to as replacement risk, is related to the case in which the market value of a position has become positive and thus, in the case of default of the counterparty, the solvent party would be forced to replace the position on the market, thereby suffering a loss.
Counterparty risk also applies to securities financing transactions (repurchase agreements, securities lending, etc.).
With regard to counterparty risk, the Banking Group improved the measurement and monitoring of the risk, by refining the instruments required under Basel 3, in order to equip the Banking Group with an internal model for the measurement of both operational and regulatory risk. The organisational functions involved, as described in the Bank's internal regulations, are:

- the Chief Risk Officer Governance Area, which is responsible for the counterparty risk measurement system by defining calculation methods, producing and analysing measures of exposure;
- the Level I and Level II control functions that use the measurements produced to monitor the assumed positions;
- the marketing and credit functions that draw on the foregoing measures as part of the granting process to determine the limits of the credit lines.

The project yielded the following results:

- the Banking Group set up a suitably robust IT, methodological and regulatory infrastructure, in accordance with the use test requirement set out by regulations on internal models;
- the Banking Group integrated the risk measurement system into decision-making processes and the management of company operations;
- cutting-edge methods were adopted for calculating drawdowns on credit lines;
- The Supervisory Authority validated the Parent Company's use of the internal model for calculating the counterparty requirement in the first quarter of 2014. The first report using the internal model (with a view to Basel 3) was made on 31 March 2014, relating to the scope of the OTC derivatives;
- Intesa Sanpaolo obtained authorisation to use the internal model for the capital requirement for SFT instruments with effect from the report as at 31 December 2016.

Potential exposure (estimated with the actual average PFE - Potential Future Exposure) has been adopted by the entire Banking Group for the purposes of operational measurement of uses of credit lines for derivatives. The Financial and Market Risks Head Office Department produces daily risk measurement estimates for counterparty risk, for the measurement of the uses of credit lines for OTC derivatives for the Parent Company and Fideuram. The other Group Banks use the PFE method, in simplified form.
In addition, the following company processes were implemented to complete the risk analysis process for the exposure measures implemented over time following the developments discussed above:

- definition and periodic calculation of stress tests on market scenarios and joint market/credit scenarios on counterparty risk measures;
- definition and periodic analysis of Wrong-Way Risk, i.e. the risk of a positive correlation between the future exposure to a counterparty and that counterparty's probability of default;
- definition and monitoring of management limits;
- contribution of collateral inflow/outflow risk measures, calculated on the basis of the internal counterparty risk model, for OTC derivative transactions and SFTs with collateral agreements (CSA);

– periodic reporting to the management of measures calculated using the internal exposure model, capital requirement, level of use of management limits, results of stress tests and analyses of wrong-way risk.

Policies for hedging and mitigating risk

In order to mitigate the counterparty risk associated with OTC (i.e., unregulated) derivatives and SFTs (securities financing transactions, i.e. securities lending and repurchase agreements), the Group uses bilateral netting agreements that allow the netting of claims and obligations if a counterparty defaults.
This is achieved by entering into ISDA and ISMA/PSA agreements, which also reduce the absorption of regulatory capital in accordance with supervisory provisions.
In addition, the Group has collateral agreements in place, mainly with daily margining, to hedge OTC derivatives transactions (Credit Support Annexes), also due to the margin requirements for non-centrally cleared derivatives, established by the EMIR; for SFTs, the Bank implements daily margining agreements (GMRAs and GMSLAs).
With regard to substitution risk, to mitigate risk exposure to specific counterparties, the Bank acquires protection through single name Credit Default Swaps. Furthermore, the Bank also purchases single name CDS or CDS on indexes to mitigate the risk of adjustment of the valuation of the credit or CVA.

Quantitative disclosure

Analysis of CCR exposure by approach as at 31 December 2020 (EU CCR1 EBA GL 2016/11)

(millions of euro)

		Notional	Replacement cost/current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWAs
1	Mark to market		960	412			829	561
2	Original exposure	-					-	-
3	Standardised approach		-			-	-	-
4	IMM (for derivatives and SFTs)				16,470	1.47	24,211	5,059
5	*Of which securities financing transactions*				*2,865*	*1.47*	*4,212*	*317*
6	*Of which derivatives and long settlement transactions*				*13,605*	*1.47*	*19,999*	*4,742*
7	*Of which from contractual cross-product netting*				*-*	*-*	*-*	*-*
8	Financial collateral simple method (for SFTs)						-	-
9	Financial collateral comprehensive method (for SFTs)						4,135	1,080
10	VaR for SFTs						-	-
11	**TOTAL**							**6,700**

The table includes the transactions with central counterparties, the values of which are shown in table CCR8 below.

As described above, the Parent Company has been authorised to use EPE (Expected Positive Exposure) internal models to determine the capital requirement for counterparty risk.
This approach is applicable to almost the entire trading portfolio (as shown in the table, as at 31 December 2020 approximately 96% of the total EAD of financial and credit derivatives is measured using EPE models). At consolidated level, derivatives whose counterparty risk is measured using approaches other than internal models represent a residual portion of the portfolio (as at 31 December 2020 accounting for approximately 4% of overall EAD) and refer to:

- residual contracts not measured using the EPE model (in compliance with the immateriality of the EBA thresholds);
- EAD generated by all other banks and companies in the Group which report using the mark-to-market approach.

The EPE internal model considers the collateral collected to mitigate credit exposure and any excess collateral paid. The value of the guarantees received and included in the calculation of the EAD amounts to more than 5 billion euro for the Parent Company, while the collateral paid equals around 22 billion euro (including the collateral connected to transactions with central counterparties).
As part of the stress test programme on counterparty risks, it was estimated that a downgrade of Intesa Sanpaolo by the rating agencies would generate additional liquidity outflows (in terms of collateral paid) of 1.4 billion euro for the Parent Company (all to vehicles of the Group), linked to contractual clauses that would be activated following this event.
Starting from the reporting as at 31 December 2016, also SFTs were reported with the EPE internal models approach. The existing contracts are all accompanied by margin agreements – GMRA (for repurchase agreements) and GMSLA (for securities lending).

CVA capital charge as at 31 December 2020 (EU CCR2 EBA GL 2016/11)

(millions of euro)

		Exposure value	RWAs
1	**Total portfolios subject to the advanced method**	**1,218**	**776**
2	VaR component (including the 3× multiplier)		443
3	SVaR component (including the 3× multiplier)		333
4	**All portfolios subject to the standardised method**	**235**	**141**
EU4	Based on the original exposure method	**-**	**-**
5	**Total subject to the CVA capital charge**	**1,453**	**917**

The CVA risk requirement decreased (-20%) compared to June 2020, despite the new contribution from UBI Banca, mainly as a result of the improved portfolio diversification following the integration of Banca IMI into the Parent Company.

Standardised approach – CCR exposures by regulatory portfolio and risk weighting as at 31 December 2020 (EU CCR3 EBA GL 2016/11)

(millions of euro)

	EXPOSURE CLASSES	RISK WEIGHT											TOTAL	*OF WHICH UNRATED*
		0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others		
1	Central governments or central banks	7,116	-	-	-	-	7	-	-	-	-	-	**7,123**	*604*
2	Regional government or local authorities	-	-	-	-	6	-	-	-	-	-	-	**6**	*6*
3	Public sector entities	-	-	-	-	-	-	-	-	6	-	-	**6**	*6*
4	Multilateral development banks	2,106	-	-	-	-	-	-	-	-	-	-	**2,106**	-
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	**-**	-
6	Institutions	-	8,663	-	-	350	23	-	-	7	-	-	**9,043**	*243*
7	Corporates	-	-	-	-	49	44	-	-	627	-	-	**720**	*521*
8	Retail	-	-	-	-	-	-	-	3	-	-	-	**3**	*3*
9	Institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	-	-	-	-	**-**	-
10	Other items	-	-	-	-	-	-	-	-	-	-	-	**-**	-
11	**TOTAL**	**9,222**	**8,663**	**-**	**-**	**405**	**74**	**-**	**3**	**640**	**-**	**-**	**19,007**	***1,383***

Standardised approach – CCR exposures by regulatory portfolio and risk weighting - Amounts without risk mitigation as at 31 December 2020 (EU CCR3 bis)

(millions of euro)

	EXPOSURE CLASSES	RISK WEIGHT											TOTAL	*OF WHICH UNRATED*
		0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others		
1	Central governments or central banks	6,825	-	-	-	-	7	-	-	-	-	-	**6,832**	*604*
2	Regional government or local authorities	-	-	-	-	6	-	-	-	-	-	-	**6**	*6*
3	Public sector entities	-	-	-	-	-	-	-	-	6	-	-	**6**	*6*
4	Multilateral development banks	2,106	-	-	-	-	-	-	-	-	-	-	**2,106**	-
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	**-**	-
6	Institutions	40	8,663	-	-	1,862	529	-	-	31	-	-	**11,125**	*360*
7	Corporates	-	-	-	-	49	44	-	-	690	-	-	**783**	*583*
8	Retail	-	-	-	-	-	-	-	12	-	-	-	**12**	*12*
9	Institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	-	-	-	-	**-**	-
10	Other items	-	-	-	-	-	-	-	-	-	-	-	**-**	-
11	**TOTAL**	**8,971**	**8,663**	**-**	**-**	**1,917**	**580**	**-**	**12**	**727**	**-**	**-**	**20,870**	***1,571***

IRB approach – CCR exposures by exposure class and PD range as at 31 December 2020 (EU CCR4 EBA GL 2016/11) *(Table 1 of 2)*

(millions of euro)

PD scale	EAD post CRM	Average PD (%)	Number of obligors	Average LGD (%)	Average maturity (days)	RWAs	RWA density (**)
Exposures to or secured by Supervised Intermediaries, Public sector and local entities and Other entities							
da 0,00 a <0,15	3,000	0.05	107	23.1	567	405	13%
da 0,15 a <0,25	297	0.18	41	34.5	601	99	33%
da 0,25 a <0,50	1,039	0.32	32	27.5	1,390	599	58%
da 0,50 a <0,75	14	0.70	11	29.2	784	8	58%
da 0,75 a <1,25	61	1.04	5	25.6	1,752	45	74%
da 1,25 a <2,50	1,090	1.70	29	26.5	969	789	72%
da 2,50 a <5,00	31	2.92	10	49.0	618	46	146%
da 5,00 a <10,00	127	5.37	8	29.8	167	115	91%
da 10,00 a <20,00	12	18.12	1	25.6	829	17	139%
da 20,00 a <100,00	4	42.00	1	25.6	1,825	6	152%
100,00 (default)	-	-	-	-	-	-	-
Subtotal	5,675	0.64	245	25.5	802	2,129	37%
Exposures to or secured by corporates:							
- Specialised lending							
0.00 to <0.15	-	-	-	-	-	-	-
0.15 to <0.25	-	-	-	-	-	-	-
0.25 to <0.50	17	0.35	4	18.0	694	3	20%
0.50 to <0.75	185	0.54	22	20.3	1,428	69	37%
0.75 to <1.25	134	0.82	20	17.6	1,248	46	34%
1.25 to <2.50	146	1.40	46	18.1	1,311	59	41%
2.50 to <5.00	39	3.94	15	17.2	952	19	49%
5.00 to <10.00	3	8.97	1	51.7	1,245	4	155%
10.00 to <20.00	101	14.61	4	65.3	1,814	385	381%
20.00 to <100.00	-	-	-	-	-	-	-
100.00 (default)	-	-	-	-	-	-	-
Subtotal	625	3.35	112	26.4	1,374	585	94%
- SMEs (small and medium enterprises)							
0.00 to <0.15	9	0.12	196	51.5	881	3	28%
0.15 to <0.25	14	0.20	441	51.5	852	5	36%
0.25 to <0.50	71	0.37	1,790	51.7	902	39	56%
0.50 to <0.75	56	0.60	1,406	51.7	900	37	67%
0.75 to <1.25	49	1.07	1,275	51.7	936	41	84%
1.25 to <2.50	130	1.67	2,419	51.7	894	127	98%
2.50 to <5.00	57	3.14	1,137	51.3	987	60	105%
5.00 to <10.00	84	7.02	1,026	51.7	1,159	121	144%
10.00 to <20.00	25	14.87	216	51.7	1,224	45	183%
20.00 to <100.00	15	25.03	64	51.7	1,140	34	228%
100.00 (default)	25	100.00	261	63.0	913	6	24%
Subtotal	535	8.17	10,231	52.2	973	518	97%
- Other corporates							
0.00 to <0.15	182	0.06	60	36.9	1,377	42	23%
0.15 to <0.25	339	0.20	141	36.9	918	129	38%
0.25 to <0.50	479	0.33	453	36.9	1,038	248	52%
0.50 to <0.75	738	0.51	338	36.9	1,419	501	68%
0.75 to <1.25	719	1.15	336	37.6	1,288	699	97%
1.25 to <2.50	401	1.84	419	35.4	1,297	404	101%
2.50 to <5.00	111	3.75	163	36.3	676	118	106%
5.00 to <10.00	176	7.57	94	36.9	1,113	272	154%
10.00 to <20.00	10	12.73	16	36.9	544	17	164%
20.00 to <100.00	1	29.05	7	36.9	953	2	168%
100.00 (default)	16	100.00	42	47.6	670	4	24%
Subtotal	3,172	1.81	2,069	36.9	1,211	2,436	77%

IRB approach – CCR exposures by exposure class and PD range as at 31 December 2020 (EU CCR4 EBA GL 2016/11) *(Table 2 of 2)*

(millions of euro)

PD scale	EAD post CRM	Average PD (%)	Number of obligors	Average LGD (%)	Average maturity (days)	RWAs	RWA density (**)
Retail exposures: (*)							
- Other retail exposures: SMEs							
0.00 to <0.15	4	0.12	475	48.8	-	-	11%
0.15 to <0.25	3	0.15	341	48.4	-	-	13%
0.25 to <0.50	7	0.31	676	48.3	-	1	21%
0.50 to <0.75	3	0.68	186	47.7	-	1	33%
0.75 to <1.25	3	1.12	197	48.5	-	1	42%
1.25 to <2.50	2	1.86	178	48.5	-	1	49%
2.50 to <5.00	1	3.08	168	49.1	-	1	56%
5.00 to <10.00	1	5.11	80	48.4	-	1	58%
10.00 to <20.00	1	16.46	74	48.0	-	1	79%
20.00 to <100.00	1	47.66	32	50.2	-	1	102%
100.00 (default)	2	100.00	96	46.6	-	-	14%
Subtotal	28	8.72	2,503	48.3	-	8	30%

(*) The average maturity is not shown for retail portfolios since this parameter is not used when calculating risk-weighted assets according to regulations. In addition, "Other retail exposures: private individuals" present immaterial amounts as at 31 December 2020.

(**) The percentage values of RWA density were calculated on amounts not rounded up or down to the nearest million.

For the ISP Group net of the former UBI Group (which does not use the advanced approaches for counterparty risk), the aggregate exposures subject to counterparty risk, measured using the advanced approaches, showed a decrease compared to June 2020 (-2.5 billion euro), with a slight reduction in the capital requirement (-0.2 billion euro of RWAs), attributable to the "Supervised Intermediaries, Public sector and local entities and Other entities" portfolio, mainly due to short-term fluctuations in the trading in repurchase agreements. With regard to the risk profile, there was an increase in the LGD (30.7% compared to the previous 27.6%) and PD (117 bps compared to 104 bps in June 2020) reflecting the stricter macroeconomic conditions.

Credit derivatives exposures as at 31 December 2020 (EU CCR6 EBA GL 2016/11)

(millions of euro)

	CREDIT DERIVATIVE HEDGES		OTHER CREDIT DERIVATIVES
	Protection bought	Protection sold	
Notionals			
Credit default products - On single counterparty	-	-	14,325
Credit spread products - On single counterparty	-	-	-
Total rate of return swap - On single counterparty	-	-	-
Other - On single counterparty	-	-	-
Credit default products - On more counterparties (basket)	-	-	110,668
Credit spread products - On more counterparties (basket)	-	-	-
Total rate of return swap - On more counterparties (basket)	-	-	-
Other - On more counterparties (basket)	-	-	-
Total notionals	**-**	**-**	**124,993**
Fair values			
Positive fair value (asset)	-	-	*1,616*
Negative fair value (liability)	-	-	*1,759*

The transactions in credit derivatives related to the own credit portfolio with a notional value of 111.2 billion euro (of which 52.3 billion euro relating to protection sales), whereas the dealing on behalf of customers had a notional value of 13.7 billion euro (of which 6.6 billion euro relating to protection sales).

Impact of netting and collateral held on exposure values as at 31 December 2020 (EU CCR5-A EBA GL 2016/11)

This table provides an overview of the impact of the netting and collateral held on exposures whose value is measured in accordance with part three, title II, chapter six, of the CRR, including the exposures resulting from transactions netted through a CCP. For more comprehensive information on the netting arrangements in accordance with IAS 32, see the disclosure provided in the Notes to the consolidated financial statements - Part B - Information on the consolidated balance sheet - Liabilities - Other information.

(millions of euro)

		Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
1	Derivatives	22,159	18,083	4,076	2,536	1,540
2	SFTs	24,243	-575	24,818	20,415	4,403
3	Cross-product netting	-	-	-	-	-
4	**TOTAL**	**46,402**	**17,508**	**28,894**	**22,951**	**5,943**

Composition of collateral for exposures to CCR as at 31 December 2020 (EU CCR5-B EBA GL 2016/11)

(millions of euro)

	COLLATERAL USED IN DERIVATIVE TRANSACTIONS		COLLATERAL USED IN SFTS	
	Fair value of collateral received	Fair value of posted collateral	Fair value of collateral received	Fair value of posted collateral
Cash	4,258	20,203	378	654
Debt Securities	1,180	1,760	205	65
TOTAL	**5,438**	**21,963**	**583**	**719**

Compared to the previous half-year, both collateral paid and collateral received for OTC derivatives decreased, mainly as a result of the consolidation of the positions of Banca IMI and the Parent Company relating to transactions with CCPs. In contrast, collateral paid for SFTs, both in the form of cash and securities, increased on the previous half-year, while collateral received decreased.

Exposures to CCPs as at 31 December 2020 (EU CCR8 EBA GL 2016/11)

(millions of euro)

		EAD POST CRM	RWAs
1	**Exposures to QCCPs (total)**		**535**
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	714	16
3	i) OTC derivatives	276	6
4	ii) Exchange-traded derivatives	186	4
5	iii) SFTs	252	6
6	iv) Netting sets where cross-product netting has been approved	-	-
7	Segregated initial margin	-	
8	Non-segregated initial margin	8,071	159
9	Prefunded default fund contributions	1,054	360
10	Alternative calculation of own funds requirements for exposures		-
11	**Exposures to non-QCCPs (total)**		-
12	Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which	-	-
13	i) OTC derivatives	-	-
14	ii) Exchange-traded derivatives	-	-
15	iii) SFTs	-	-
16	iv) Netting sets where cross-product netting has been approved	-	-
17	Segregated initial margin	-	
18	Non-segregated initial margin	-	-
19	Prefunded default fund contributions	-	-
20	Unfunded default fund contributions	-	-

The values of exposures to QCCPs were up on the previous half year. The growth is attributable to the process of integration of Banca IMI into the Parent Company and the entry of UBI Banca into the Group.

Section 12 – Securitisations

Qualitative disclosure

Securitisations: objectives and roles undertaken

Originated securitisations

The originated securitisations of the Intesa Sanpaolo Group may be differentiated into:

– Securitisations (not discussed in this Section) that, through the conversion of the loans sold into refinanceable securities, form part of the overall general policy of strengthening of the Group's liquidity position and are not standard securitisations as they do not transfer the risk outside the Group (self-securitisations);
– standard securitisations, structured with the objective of achieving economic benefits from the optimisation of the loan portfolio, the diversification of funding sources and the reduction of their cost ("standard originated securitisations" and "Asset Backed Commercial Paper programmes") or in order to provide services to customers ("securitisations in which the Group acts as sponsor").

The Group conducts these transactions using Special Purpose Entities (SPEs), namely vehicles that enable an entity to raise resources through the securitisation of part of its assets. In general, this involves the spin-off of a package of balance sheet assets (generally loans) and its subsequent transfer to a vehicle that, to finance the purchase, issues securities, which are later placed in the market or through a private placement. Funds raised in this way are reversed to the seller, whereas the commitments to the subscribers are met using the cash flows generated by the loans sold.

Standard originated securitisations

The securitisations in this category are as follows:

– ***Telefonia 2 Securitisation***
This transaction was conducted in 2017 on a portfolio of trade receivables in the telephony sector originated by primary customers and purchased without recourse by the Intesa Sanpaolo Group for a programme amount of 100 million euro. The risks of the portfolio of receivables were subsequently securitised. In relation to these receivables, limited recourse loans were disbursed and/or tranches of securities without ratings were issued with different levels of subordination. The vehicles used for the transaction were Trade Receivables Investment Vehicle S.a.r.l. and Duomo Funding Plc.
In 2018, the assets relating to the Telefonia transaction, conducted in 2014 (and subsequently entered into repayment in 2018), for a total programme amount of 300 million euro, were also transferred to the Telefonia 2 transaction. The vehicles Trade Receivables Investment Vehicle S.a.r.l., Lana Trade Receivables S.a.r.l. and Duomo Funding Plc. were used for this transaction.
In 2019, the senior and mezzanine positions in the capital structure of the transaction were fully repaid. As at 31 December 2020, there was one remaining junior position for an immaterial amount subscribed by a Luxembourg vehicle.

– ***Fuel Securitisation***
This transaction has been carried out in several tranches starting from 2015, on portfolios of trade receivables in the oil & refined products sector originated by primary customers and purchased without recourse by the Intesa Sanpaolo Group.
The risk of the portfolio was subsequently securitised. In relation to the receivables, limited recourse loans were disbursed and/or tranches of securities without ratings were issued with different levels of subordination. At the end of 2018, the nominal value of the securitised loans was 159 million euro. For these transactions, the Group used the vehicles Trade Receivables Investment Vehicle S.a.r.l., Hermes Trade Receivables S.a.r.l., Lana Trade Receivables S.a.r.l. and Duomo Funding Plc.
In 2019, the senior and mezzanine positions in the capital structure of the transaction were fully repaid, leaving a junior position for an immaterial amount placed with third-party investors still outstanding.
During 2020, the position was fully repaid.

– ***Towers Securitisation***
In 2016, Intesa Sanpaolo completed a securitisation via the sale without recourse of two portfolios of performing consumer loans for around 2.6 billion euro, through Accedo, a wholly-owned consumer credit company dedicated to consumer credit distribution channels outside the Group. The two portfolios – one relating to salary-backed loans and the other to car and special-purpose loans – were sold to two specially created vehicle companies (Towers CQ S.r.l. and Towers Consumer S.r.l.), independent of the Intesa Sanpaolo Group and managed by a third-party servicer, which funded the purchase price by issuing asset-backed securities. The senior and mezzanine securities of the portfolio consisting of salary-backed loans have a Moody's rating of Aa2 and A2 respectively.

The junior tranches were subscribed by the leading investment company Christofferson Robb & Company, whereas the senior and mezzanine tranches were subscribed by a pool of international banks, led by Banca IMI (now Intesa Sanpaolo) and also made up of Citigroup, Goldman Sachs International and JP Morgan. Accedo, now Intesa Sanpaolo, had subscribed for 5% of each of the tranches issued, in compliance with the retention rule laid down by the supervisory regulations.
For the Towers CQ securitisation, in 2018 a first refinancing carried out on instruction from the holder of the class C (junior) notes resulted in those notes being split into two classes, a M (mezzanine) class and a J (junior) class, on which Intesa Sanpaolo maintained its retention through a vertical slice.
Following the redemption of the tranche A (senior) in the first half of 2020, the majority junior investor (Precise Credit Solution) requested a new refinancing by means of publication on the Luxembourg stock exchange, which consisted of the full repayment of the class B (mezzanine) and M (mezzanine) notes against the issue of a new A1 (senior) class, and the partial repayment of the J (junior) class.

– ***Securitisations of the former Banca Popolare di Vicenza***

As at 31 December 2017, there were nine multi-originator securitisations outstanding that had been carried out in accordance with Law 130/1999 (involving Banca Nuova and the former Banca Popolare di Vicenza) named Berica 5 Residential MBS, Berica 6 Residential MBS, Berica 8 Residential MBS, Berica 9 Residential MBS, Berica 10 Residential MBS, Berica ABS, Berica ABS 2, Berica ABS 3, and Berica ABS 4.
For all of these securitisations, the conditions for derecognition envisaged by the accounting standards did not apply and, therefore, these loans were recognised in the financial statements. The underlying assets of these securitisations all consist of mortgage loans on residential properties.
In 2018, the transactions named Berica 5 Residential MBS, Berica 6 Residential MBS, Berica 8 Residential MBS, Berica 9 Residential MBS, Berica 10 Residential MBS, Berica ABS, and Berica ABS 2 were closed.

– ***Securitisations of the former Veneto Banca***

As at 31 December 2017, there were ten securitisations outstanding that had been carried out in accordance with Law 130/1999 (involving the former Veneto Banca and Banca Apulia) named Claris ABS 2011, Claris Finance 2005, Claris Finance 2007, Claris Finance 2008, Claris RMBS 2011, Claris RMBS 2014, Claris Sme 2015, Claris SME 2016 and Apulia Finance n.4, First and Second issue.
For all of these securitisations, the conditions for derecognition envisaged by the accounting standards did not apply and, therefore, these loans were recognised in the financial statements. The underlying assets of these securitisations all consist of mortgage loans on residential properties.
The securitisation Claris Finance 2007 is not derecognised for financial statement purposes, but it is derecognised for prudential purposes.
The following occurred with respect to these transactions in 2018:

- the Claris ABS 2011 and Claris RMBS 2011 transactions were closed;
- the Claris Finance 2008 and Claris Sme 2015 transactions were classed as self-securitisations, because the securities are fully subscribed by the sellers.

The following occurred with respect to these transactions in 2019:

- the Claris Finance 2007 and Claris SME 2016 transactions were closed;
- the Claris RMBS 2014 transaction was classed as a self-securitisation, because the securities are fully subscribed by the sellers.

In 2020, the Claris Finance 2005 transaction was closed and Apulia Finance n.4 was classed as a self-securitisation, because its remaining securities are fully subscribed by the sellers.

– ***K-Equity Securitisation***

Between 2015 and 2017, the Intesa Sanpaolo Group sold non-performing exposures to several debtor companies through two different securitisations. Other Italian banks also participated in the securitisations.
The securitisations consisted of the transfer of their credit exposures with several industrial companies to specifically established third-party entities, in order to enable their value enhancement through financial and industrial restructuring.
That transfer specifically fulfils the purpose of ensuring the management of said this exposures by entities established and managed by specialised third parties to optimise the recovery of the overall exposure by using the know-how and experience of the parties involved in the financial and industrial restructuring processes and, possibly, the granting of new financing to benefit the transferred debtors.
Among other things, the transaction involved the use of securitisation companies established pursuant to Law 130/99 (Pillarstone Italy SPV S.r.l and Norma SPV S.r.l), which purchase and securitise the credit exposures and, where necessary, provide new lending to the transferred borrowers.
The Group holds no investments in the above mentioned company, which is therefore a third party that is independent from Intesa Sanpaolo.
The SPVs contributed to the execution of the securitisations by issuing senior, mezzanine and junior notes, fully subscribed by each bank. Therefore, each securitisation regards the loans due to the selling banks from a single debtor.
The exposures sold have not currently been derecognised either from the financial statements or for prudential purposes. Against said sales, in addition to the notes mentioned above, Super Senior notes subscribed by third parties were also issued. All the securities issued have no external rating.

The following events took place in 2020:

- closure of a transaction relating to receivables in the graphic paper sector, following a refinancing involving Intesa Sanpaolo, which resulted in the termination of the agreements with the Pillarstone platform;
- transfer of loans object of a transaction in a newly created Alternative Investment Fund, called RSCT Fund, as part of the derisking envisaged in the 2018-2021 Business Plan. For more details, see Part E – D. Sales of the Consolidated Financial Statements as at 31 December 2020;
- following the approval of the Bankruptcy Arrangement for a major shipowning group, in the first quarter of 2020, Norma SPV S.r.l., through Norma Reoco, acquired ownership of five vessels, resulting in the discharge of the shipowning group's debt towards the SPV. As a result, in accordance with IFRS 9, Intesa Sanpaolo derecognised these loans from its balance sheet and recognised the notes subscribed in the securitisation at fair value.

– ***Savoy Securitisation***

With a view to the reduction of the Group's risk profile envisaged in the 2018-2021 Business Plan, in 2018, a traditional securitisation was structured through the sale to the vehicle company Penelope SPV S.r.l. of a loan portfolio originated by Intesa Sanpaolo and by eight Banks of the Banca dei Territori Division (Banco di Napoli, Cassa di Risparmio in Bologna, Cassa dei Risparmi di Forlì e della Romagna, Cassa di Risparmio del Friuli Venezia Giulia, Cassa di Risparmio di Firenze, Cassa di Risparmio di Pistoia e della Lucchesia, Cassa di Risparmio del Veneto, and Mediocredito Italiano, which were merged into Intesa Sanpaolo). The underlying consisted of loans classified as bad loans for a gross total value, at the cut-off date of 1 January 2018, of 10.8 billion euro (gross of adjustments) at a price of 3.1 billion euro, in line with the carrying amount already determined for the portion of the Group's saleable bad loans, taking into account the sale scenario. The securitised assets mainly related to loans to businesses (including SMEs) with the following geographical distribution: 30% North West, 26% North East, 23% Central Italy and 21% South and Islands. The transaction enabled the derecognition of the loans for each Selling Bank. The accounting and administrative management of the Vehicle is entrusted to Securitisation Services S.p.A.
The consideration for the sale of the portfolio was settled, also considering the net collections since the cut-off date of 1 January 2018, with the issue on 3 December 2018, by the SPV, of three tranches of unlisted securities that are currently unrated: a senior tranche, a mezzanine tranche and a junior tranche. At the closing of the transaction, the securities were issued and subscribed as follows:

- Senior tranche of 1,635.4 million euro, of which 364.5 million euro (22.3%) was subscribed by Banca IMI (now Intesa Sanpaolo) and the remainder by third-party investors;
- Mezzanine Tranche of 490.6 million euro, of which 240.4 million euro (49%) was subscribed by Intesa Sanpaolo and 51% by a third-party investor;
- Junior tranche of 599.6 million euro, of which 293.8 million euro was subscribed by Intesa Sanpaolo (49%) and 51% by a third-party investor.

– ***Kerma Securitisation***

As part of the strategy to reduce the risk profile envisaged in the 2018-2021 Business Plan, on 31 July 2019 Intesa Sanpaolo and Prelios signed a binding agreement to form a strategic partnership for loans classified as unlikely-to-pay (UTP), which provides for the sale to a securitisation vehicle (below KERMA SPV s.r.l. or the SPV) of a portfolio of UTP loans of the Intesa Sanpaolo Group, with a Gross Book Value (GBV) of around 3 billion euro as at 31 March 2019 (cut-off date), at a price of around 2 billion euro, substantially in line with the Net Book Value (NBV) of the portfolio.
The sale was completed through a transaction that involved:

(i) the transfer to KERMA SPV s.r.l. of a portfolio of medium/long-term and short-term loans and a portfolio of lease receivables;
(ii) the transfer to a financial intermediary, belonging to the Prelios Group, of all the asset and liability legal relationships;
(iii) the transfer of the asset and liability legal relationships arising from the lease contracts to a LeaseCo; and
(iv) the transfer of the risks and rewards relating to all the existing and future exposures arising from short-term/revolving loan agreements, through a limited-recourse loan granted by KERMA SPV s.r.l. to Intesa Sanpaolo and secured by the assignment of the revolving exposures to the SPV as collateral.

With regard to the short-term/revolving portfolio, the risks and rewards have been transferred to the SPV by means of a limited recourse loan in accordance with Article 7(1)(a) of Law 130/99.
The SPV financed the acquisition of the portfolio by issuing 4 classes of securities:

- senior notes of 1,258 million euro, fully subscribed by Intesa Sanpaolo;
- mezzanine notes, divided into class B1 notes subscribed by Intesa Sanpaolo for 13 million euro and the remainder by a third party investor and class B2 notes, subscribed by Intesa Sanpaolo for 7 million euro and the remainder by a third party investor;
- junior notes, subscribed by Intesa Sanpaolo for 7 million euro and the remainder by a third party investor.

Taking into account the retention of 100% of the Senior notes and 5% of the Junior and Mezzanine notes, the variability connected to the cash flows of the underlying portfolio retained by the Group enabled it to establish that the Group has substantially transferred all the risks and rewards of the financial assets transferred, meeting the conditions under point a) of IFRS 9.3.2.6, as a result of which it has derecognised the financial asset and recognised separately as assets or liabilities any rights and obligations originated from or maintained with the transfer.

In this regard, the notes subscribed by Intesa Sanpaolo, due to the business model used and the look-through test carried out, have been classified as follows:
- senior tranches under securities at amortised cost;
- mezzanine and junior tranches under securities measured at FVTPL.

In 2020, the sale of the lease portfolio was carried out in two tranches, more precisely in March and November, for a total GBV (Gross Book Value) of around 180 million euro on the sale dates at a price of around 116 million euro, substantially in line with the portfolio's NBV (Net Book Value).

- ***Securitisations of the former UBI Group***

As at 31 December 2020, the following six securitisation transactions were outstanding, deriving from the acquisition of the UBI Group by the Intesa Sanpaolo Group:

- ***UBI2017 - SME FEI Securitisation***

The "UBI2017 - SME FEI" synthetic securitisation, carried out at the end of 2017, consists of a portfolio of medium/long-term loans to performing counterparties represented by SMEs (over 80%) and Small Mid Cap companies, mainly located in Southern Italy.
Three tranches have been issued within this transaction: a senior tranche subscribed by UBI Banca, and a mezzanine tranche and junior tranche subscribed by the EIF.
For this transaction, UBI Banca holds 50% of the securitised portfolio to comply with the retention rule laid down by the supervisory regulations.

- ***UBI2018 – RegCap-2 Securitisation***

The "UBI2018 - RegCap-2" synthetic securitisation, carried out at the end of 2018, is the second market transaction carried out by the former UBI Banca Group (the first one, UBI2017-RegCap1, was closed in July 2020).
The underlying portfolio consists of medium/long-term loans granted to performing Corporate, Corporate SME and Retail SME counterparties, mainly located in Northern Italy.
Two tranches have been issued within this transaction: a senior tranche subscribed by UBI Banca, and a junior tranche subscribed by a market counterparty.
This is a funded transaction and involves the deposit of the entire amount of the guarantee by the subscriber of the junior tranche.
For this transaction, UBI Banca holds 5% of the securitised portfolio in compliance with the retention rule laid down by the supervisory regulations.

- ***UBI2019 – RegCap-3 Securitisation***

The synthetic securitisation "UBI2019 - RegCap-3", carried out at the end of 2019, is the third market transaction carried out by the former UBI Banca Group.
The underlying portfolio consists of medium/long-term loans granted to performing Corporate and Corporate SME counterparties, mainly located in Northern Italy.
Two tranches have been issued within this transaction: a senior tranche, subscribed by UBI Banca, and a junior tranche subscribed pro rata by two market counterparties.
In line with the previous market securitisations, this is also a funded transaction and involves the deposit of the entire amount of the guarantee by the two subscribers of the junior tranche.
For this transaction, UBI Banca holds 5% of the securitised portfolio in compliance with the retention rule laid down by the supervisory regulations.

- ***Maior and Iseo Securitisations***

In 2018 and 2019, the former UBI Banca Group carried out two traditional securitisations with a "GACS" government guarantee (Law Decree 18 of 14 February 2016 - "GACS") aimed at deconsolidating loans classified as bad loans.
Against the sale of the loans, the SPV issued three sets of asset-backed securities: senior (rated), mezzanine and junior. UBI Banca initially subscribed the entire issue and then sold 95% of the mezzanine and junior tranches, while retaining the entire senior note backed by the GACS government guarantee, in addition to 5% of the remaining tranches in compliance with the retention requirement laid down by the applicable regulations.

- ***Sirio Securitisations***

For details of the transactions carried out in 2020, see the description in the "Securitisations carried out during the period", presented at the end of this section.

- ***GARC Securitisation***

In 2014, Intesa Sanpaolo launched the "GARC" (Active Credit Risk Management) project to create a platform to monitor credit risk in performing portfolios. The initiative involves the systematic acquisition of guarantees (both personal guarantees and collateral) to support lending to customers. This type of transactions provides synthetic hedging of default risk (failure-to-pay, bankruptcy and restructuring) of granular portfolios and freeing up of economic and regulatory capital, as envisaged by the current Supervisory Regulations on the matter (Regulation (EU) 575/2013, as amended).

Within this operation, the following synthetic securitisations were carried out through the sale to specialist investors of the junior risk relating to:

- in 2014, a total (initial) portfolio of 1.8 billion euro in loans to approximately 5,400 businesses in the Corporate and Corporate SME regulatory segments (GARC SME-1[28] and GARC SME-2[29] transactions);
- in 2015, a total (initial) portfolio of 1.1 billion euro in loans to approximately 2,500 businesses in the Corporate and Corporate SME regulatory segments (GARC SME-3 transaction);
- in 2016, a total (initial) portfolio of 3.7 billion euro in loans to approximately 8,200 businesses in the Corporate and Corporate SME regulatory segments (GARC SME-4 and GARC SME-5 transactions);
- in 2017, an (initial) portfolio of around 2.5 billion euro in loans to approximately 5,300 businesses in the Corporate and Corporate SME regulatory segments (GARC SME-6 transaction);
- in 2018:
  - a portfolio of around 4 billion euro in loans to approximately 8,400 businesses in the Corporate and Corporate SME regulatory segments (GARC SME-7 transaction);
  - a portfolio of around 4 billion euro in loans to approximately 215 businesses in the Corporate regulatory segment (GARC CORP-1 transaction).

  For these transactions, Intesa Sanpaolo holds 100% of the senior tranches and 5% of the junior tranches in compliance with the retention rule laid down by the supervisory regulations.
- during 2019:
  - a portfolio of around 4.3 billion euro in loans to approximately 9,600 businesses in the Corporate and Corporate SME regulatory segments (GARC SME-8 transaction);
  - a portfolio of around 4 billion euro in loans to approximately 190 businesses in the Corporate regulatory segment (GARC CORP-2 transaction);
  - a portfolio of around 900 million euro of mortgage loans issued by Barclays to around 10,800 retail customers and purchased by Intesa Sanpaolo during 2019 (GARC Residential Mortgages-1).

  For these transactions, Intesa Sanpaolo holds 5% of the securitised portfolio in compliance with the retention rule laid down by the supervisory regulations.

For a description of the 2020 transactions, related to the "GARC" Project, see the section "Securitisations carried out during the period".

- ***Tranched Cover Piemonte Securitisation***

  A tranched cover synthetic securitisation was initiated in 2016 – also under the "GARC" Project – on newly-issued portfolios promoted by the Piedmont Regional Authority under the 2007/2013 Regional Operational Programme funded by the European Regional Development Fund, for the objective "Regional competitiveness and employment" – Axis 1 – Activity I.4.1 Measure to support access to credit for piedmontese SMEs through the establishment of the Tranched Cover Piemonte Fund. The transaction provided for the granting of a total (initial) portfolio of new loans of 60 million euro to around 350 enterprises in Piedmont.

  For this transaction, Intesa Sanpaolo holds 100% of the senior tranches and 20% of the junior tranches in compliance with the retention rule laid down by the supervisory regulations.

- ***SME Initiative Italy Securitisation***

  In 2017, the synthetic securitisation "SME Initiative Italy" (SMEI), part of the "GARC" Project, was completed on a portfolio of performing loans granted by Banco di Napoli to SMEs and Small Mid-Caps located in Southern Italy. This initiative was jointly financed by the Ministry of Economic Development and the European Commission and the EIB Group - European Investment Bank and European Investment Fund. The transaction involves the issue of a personal guarantee by the European Investment Fund on the investments in the Junior, Lower Mezzanine, Middle Mezzanine and Upper Mezzanine tranches, which covers the credit risk relating to a portfolio of around 500 million euro of loans to around 1,400 businesses in the Corporate and Corporate SME regulatory segments. In exchange for that guarantee, the bank has a commitment to provide new funds to support lending to SMEs in Southern Italy.

  For this transaction, Intesa Sanpaolo holds 100% of the senior tranche, 5% of the mezzanine tranches and 50% of the junior tranches in compliance with the retention rule laid down by the supervisory regulations.

- ***Central Guarantee Fund Tranched Cover Securitisation***

  In 2018, a tranched cover synthetic securitisation, supported by the Central Guarantee Fund, was initiated, which allows businesses to access the benefits provided for by Law no. 662/96, aimed at facilitating access to new credit for Italian SMEs. This initiative is financed by the Ministry of Economic Development and provides for the issue of a personal guarantee by the Central Guarantee Fund through which the risk of first losses is covered in relation to four portfolios of newly disbursed loans, each amounting to around 300 million euro, whose disbursements were started in 2018 and were completed by the second half of 2019.

  For this transaction, Intesa Sanpaolo holds 100% of the senior tranches and 20% of the junior tranches in compliance with the retention rule laid down by the supervisory regulations.

- ***"Tranched Cover Piemonte 2017 – Linea B" Securitisation***

  In 2019 – again as part of the "GARC" Project – a "Line B" portfolio was completed relating to a tranched cover synthetic securitisation on newly-issued portfolios promoted by the Piedmont Regional Authority under the 2014-2020 Regional Operational Programme of the European Regional Development Fund – Axis III "Competitiveness of production systems" – Thematic Objective III.3 "Promoting competitiveness of SMEs" – "Measure to support access to credit for piedmontese SMEs through the establishment of the 2017 Tranched Cover Piemonte Fund". This transaction involves the issue of collateral on the junior tranche by Finpiemonte S.p.A. and on the mezzanine tranche by Ascomfidi Nord-Ovest Società Cooperativa, to cover the credit risk relating to a portfolio of around 7.5 million euro of loans to around 150 companies in Piedmont, for which the disbursements were completed in 2019.

[28] In the last quarter of 2019, the transaction was subject to Early Termination in accordance with contractual provisions.

[29] In 2020, the transaction was subject to Early Termination in accordance with contractual provisions.

For this transaction, Intesa Sanpaolo holds 100% of the senior tranches and 20% of the mezzanine and junior tranches in compliance with the retention rule laid down by the supervisory regulations.

– ***GARC Securitisation***
For details of the transactions carried out in 2020, see the description in the "Securitisations carried out during the period", presented at the end of this section.

– ***Tranched Cover Fondo di Garanzia per le PMI Securitisation***
For details of the transactions carried out in 2020, see the description in the "Securitisations carried out during the period", presented at the end of this section.

– ***"Tranched Cover Piemonte 2017 – Linea A" Securitisation***
For details of the transactions carried out in 2020, see the description in the "Securitisations carried out during the period", presented at the end of this section.

– ***Yoda Securitisation***
For details of the transactions carried out in 2020, see the description in the "Securitisations carried out during the period", presented at the end of this section.

Securitisations for which the Group acts a sponsor

– ***Muttley and Setafia Securitisations***
In 2015, Banca IMI sponsored two securitisations of trade receivables, respectively in the furniture and furnishing sector for 55 million euro (later reduced to 48 million euro) and in the pharmaceutical sector for 80 million euro (later reduced to 40 million euro). Receivables generated by primary customers of the Group were purchased by special purpose vehicles established pursuant to Law 130/99 (Muttley and Setafia respectively) which proceeded to securitise the risk by issuing securities. The vehicles Muttley S.r.l., Setafia SPV S.r.l., Lana Trade Receivables S.a.r.l. and Duomo Funding Plc were used for these transactions. All the securities issued are unrated.
In 2020, there were no significant changes for the Setafia transaction, whereas the Muttley transaction was restructured, as a result of which the Intesa Sanpaolo Group ceased to be a sponsor and the amount of the programme was reduced to 42 million euro.

– ***Bayon Securitisation***
In 2018, Banca IMI (now merged into Intesa Sanpaolo) and the Parent Company sponsored a securitisation of trade receivables in the telephony sector for 200 million euro. Receivables generated by primary customers of the Group were purchased by a special purpose vehicle established pursuant to Law 130/99 (Bayon S.r.l.) which proceeded to securitise the risk by issuing various classes of notes subscribed by Duomo Funding Plc and Luxembourg-registered vehicles. All the securities issued are unrated.
In 2019, the Telefonia 3 transaction was restructured and fully transferred to the Bayon programme, whose securitised portfolio increased to 663 million euro.
In 2020, the transaction was increased to a total of 800 million euro.

– ***Food & Beverages Securitisation***
The transaction was initially carried out in several tranches starting from 2012, on portfolios of trade receivables in the food & beverages sector originated by primary customers and purchased without recourse by the Intesa Sanpaolo Group. The risk of the portfolio was subsequently securitised. In relation to the receivables, limited recourse loans were disbursed with different levels of subordination. At the end of 2017, the nominal value of the securitised loans was 626 million euro. For these transactions, the Group used the vehicles Trade Receivables Investment Vehicle S.a.r.l., Hermes Trade Receivables S.a.r.l., Lana Trade Receivables S.a.r.l. and Duomo Funding Plc.
In 2018, this transaction was restructured so that the Intesa Sanpaolo Group could act as sponsor. The new structure involves: i) the sale without recourse pursuant to Law 52/91 (factoring law) of loan portfolios from the sellers to Intesa Sanpaolo and the sale of the loans by Intesa Sanpaolo to a vehicle company pursuant to Law 130/99 (Massi S.r.l) or ii) the sale without recourse pursuant to Law 130/99 (securitisation law), which is financed through the issue of asset-backed securities subscribed by Duomo Funding Plc and Luxembourg-registered vehicles.
At the end of 2020, the platform had reached a total amount of 575 million euro.

– ***Luce Securitisation***
This transaction was conducted in 2011 on a portfolio of trade receivables in the electricity sector originated by primary customers and purchased without recourse by the Intesa Sanpaolo Group.
The risks of the portfolio of receivables were subsequently securitised. In relation to these receivables, limited recourse loans were disbursed and/or tranches of securities without ratings were issued with different levels of subordination.
In March 2018, the programme was increased from 900 million euro to around 1,500 million euro. To close the transactions, the Group used the vehicles Trade Receivables Investment Vehicle S.a.r.l., Hermes Trade Receivables S.a.r.l. and Duomo Funding Plc.
In 2019, this transaction was restructured so that the Intesa Sanpaolo Group could act as sponsor and was further increased to 1,620 million euro. In the second half of 2019, the seller of the Fuel 2 transaction, which operates in the gas sector, both for retail and large customers, was added, increasing the amount of the transaction to 1,640 million euro at the end of 2020.
The new structure involves the sale without recourse pursuant to Law 52/91 on factoring of loan portfolios from the

sellers to Intesa Sanpaolo, which in turn sells the loans to a vehicle company pursuant to Law 130/99 (Mawala S.r.l.), which is financed through the issue of asset-backed securities subscribed by Duomo Funding Plc, Banca IMI (now Intesa Sanpaolo) and Luxembourg-registered vehicle companies.

– ***Automotive, Electronics and Mechanics Securitisation***
The transaction has been carried out in several tranches starting from 2012, on portfolios of trade receivables in the automotive, electronics & mechanics sector originated by primary customers and purchased without recourse by the Intesa Sanpaolo Group. The risk of the portfolio was subsequently securitised. In relation to the sale of the receivables, recourse loans were disbursed with different levels of subordination. At the end of 2018, the nominal value of the securitised loans was 457 million euro. For these transactions, the Group used the vehicles Trade Receivables Investment Vehicle S.a.r.l., Hermes Trade Receivables S.a.r.l., Lana Trade Receivables S.a.r.l. and Duomo Funding Plc.
In 2019, this transaction was restructured so that Banca IMI (now Intesa Sanpaolo) could act as sponsor and comply with the minimum requirements of the retention rule laid down by the supervisory regulations.
The new structure involves the sale without recourse pursuant to Law 52/91 (factoring law) of loan portfolios from the sellers to Intesa Sanpaolo, which in turn sells the loans to a vehicle company pursuant to Law 130/99 (Manno SPV S.r.l.), which is financed through the issue of asset-backed securities subscribed by Duomo Funding Plc, Banca IMI (now Intesa Sanpaolo) and Luxembourg-registered vehicle companies. At the end of 2020, the platform had reached a total amount of 503 million euro.

– ***Transport Solution Securitisation***
In 2019, a new transaction was structured for the revolving disposal of trade receivables arising from the provision of integrated payment services for the transport sector (i.e. refuelling and motorway tolls) to SME and Corporate customers, carried out with a foreign seller based in the Czech Republic. The maximum amount that can be financed is 45 million euro. The transaction was conducted using a Luxembourg-registered securitisation vehicle (Flekar Spv S.à.r.l.). The Luxembourg-registered vehicle company finances the purchase of the receivables through the issue of asset-backed securities subscribed by Duomo Funding Plc, Banca IMI (as sponsor) and Luxembourg-registered vehicle companies.
In 2020, the transaction was fully amortised and closed.

– ***Digital Credit Delivery Platform Securitisation***
In 2019, a new transaction was structured in partnership with the Italian leader in the field of commercial information providers and credit management and recovery. This is a multi-originator programme, which has a maximum amount of 30 million euro and involves the sale of trade receivables from SME customers, selected based on particular eligibility criteria.
The structure of the transaction involves the sale of trade receivables to a vehicle company set up pursuant to the Securitisation Law 130/99 (Massi S.r.l.), which finances the purchase of the receivables through the issue of tranches of asset-backed securities subscribed by Duomo Funding Plc, Banca IMI (as sponsor) and Luxembourg-registered vehicle companies.
In 2020, the transaction was amortised with full repayment of the senior tranche of the capital structure.

– ***Steel Securitisation***
In 2019, a new transaction was structured for the revolving disposal of trade receivables from Italian industrial customers and arising from the transformation of steel into processed products, for a maximum amount of the programme of 100 million euro. The seller for the transaction is a company belonging to a leading group in the steel sector in Italy. The structure involves the sale without recourse of receivables to a securitisation vehicle established pursuant to Law 130/99 (Massi S.r.l.). In relation to these receivables, tranches of securities without ratings were issued with different levels of subordination subscribed by Duomo Funding Plc, Banca IMI (now Intesa Sanpaolo) as sponsor and Luxembourg-registered vehicle companies.
There were no changes in 2020.

– ***Luce 2 Securitisation***
In 2019, a new transaction was structured for the revolving disposal of trade receivables originating from the Italian leader in the distribution of electricity in Italy.
There are two types of receivables: receivables arising from the electricity transmission service invoiced monthly to selected debtors and receivables that the seller accrues annually as a result of investments made to improve the distribution network.
The structure of the transaction involves the sale of trade receivables pursuant to Law 52/91 (factoring law) to Intesa Sanpaolo, which simultaneously sale those receivables to a vehicle company set up pursuant to Law 130/99 (Mawala I S.r.l.), which finances the purchase of the receivables through the issue of tranches of asset-backed securities subscribed by Duomo Funding Plc, Banca IMI (now Intesa Sanpaolo) as sponsor and Luxembourg-registered vehicle companies.
In 2020, the transaction was increased to 615 million euro.

– ***Sole Debtor Securitisation***
In 2020, a transaction was carried out involving the securitisation of trade receivables originating from sundry sellers operating in the tertiary and services sector due from entities of the Intesa Sanpaolo Group up to a maximum financed amount of 192 million euro.
The structure of the transaction involves the sale of the receivables to a vehicle company set up pursuant to the Securitisation Law 130/99 (Massi S.r.l.), which finances the purchase of the receivables through the issue of tranches of asset-backed securities subscribed by Duomo Funding Plc, Intesa Sanpaolo (as sponsor, which also complies with

the minimum requirements of the retention rule laid down by the supervisory regulations) and Luxembourg-registered vehicle companies.

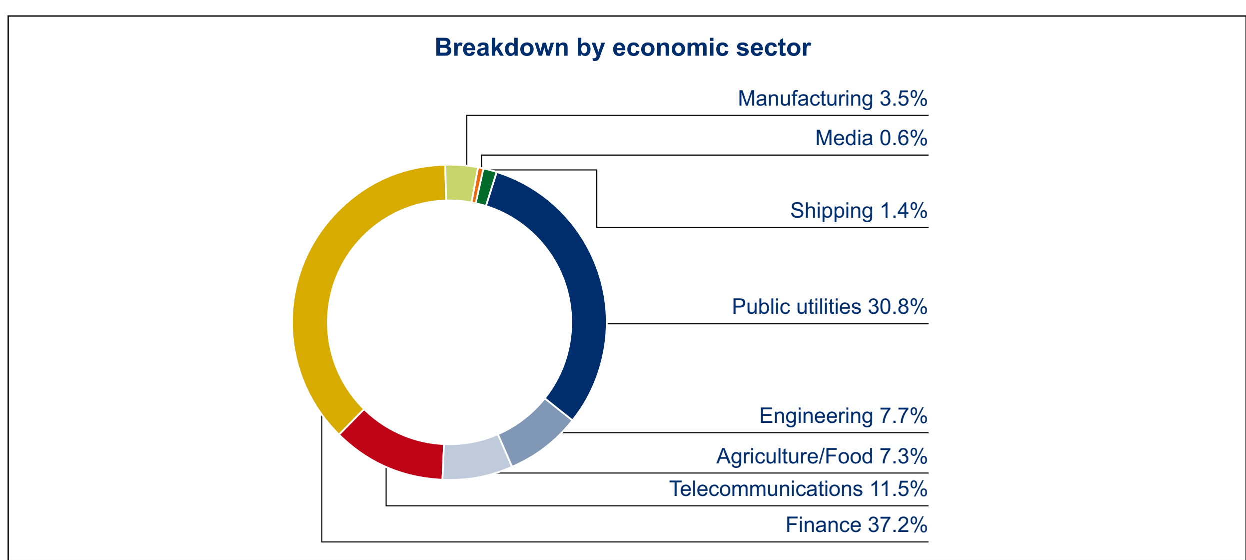
Asset-Backed Commercial Paper (ABCP) programmes

In accordance with the IAS/IFRS, Intesa Sanpaolo controls and fully consolidates:

- ***Romulus Funding Corporation***
  a company based in the USA with the mission of purchasing financial assets, consisting of loans or securities with predefined eligibility criteria originating from Group customers, and financing purchases by issuing Asset-Backed Commercial Papers;

- ***Duomo Funding PLC***
  an entity that operates in a similar manner to Romulus Funding Corporation, but is limited to the European market, and is financed through funding agreements with Romulus.

Romulus Funding Corporation and Duomo Funding Plc are the Intesa Sanpaolo Group's asset-backed commercial paper conduits, originally established to support Intesa Sanpaolo's strategy of offering customers an alternative financing channel via access to the international asset-backed commercial paper market. The assets originated by European customers are purchased by Duomo, whereas Romulus is responsible for U.S. assets and fund-raising on the U.S. market through the issuance of asset-backed commercial paper. Nonetheless, due to the subsequent downgrading of Intesa Sanpaolo at the end of 2014, U.S. investors gradually divested without the vehicle being able to find new third-party investors with which to place the asset-backed commercial papers.
As at 31 December 2020, approximately 4.1 billion euro of the securities issued by Romulus, amounting to 4.3 billion euro, had been subscribed by the Parent Company Intesa Sanpaolo. The risks associated with these entities, and more specifically, the potential interest rate and exchange rate risks arising from the operations of the two companies, must be covered in accordance with the Intesa Sanpaolo Group policy for the management of these risks. Companies are not generally permitted to take foreign-exchange positions.
As at 31 December 2020, the assets of Romulus included 4.3 billion euro in loans to the vehicle Duomo.
Against those assets, the vehicle issued asset-backed commercial paper (ABCP) with a carrying amount of 4.1 billion euro, almost all of which has been subscribed by the Parent Company, Intesa Sanpaolo.
With regard to the portfolio of the vehicle Duomo, at the end of 2020 this portfolio mainly consisted of loans to customers of 5.6 billion euro.
The total assets of the conduits Romulus and Duomo, net of dealings between the two vehicles, made up 1% of the total consolidated assets.
The portfolio risk of the two vehicles is approximately 64.3% accounted for by trade receivables and the remainder by consumer loans (18.3%), loans deriving from lease contracts (5.7%), factoring contracts (4.5%), mortgage loans (1.3%), loans to SMEs (1.3%) and loans/lease contracts to pharmaceutical companies (4.6%). The eligible assets held by the vehicles are mainly expressed in euro (94.7% of the total portfolio). The remainder is broken down into British pounds (1.6%), US dollars (1.5%), Australian dollars (1.8%) and Mexican pesos (0.4%).
The following information is provided concerning the portfolio of eligible assets.



With regard to the rating breakdown of the loan portfolio, 100% does not have a rating.

With reference to the geographical distribution of the assets held by the two vehicles, please note that approximately 94% of the debtors are located in Italy.

List of stakes in special purpose vehicles held by the Banking Group

(millions of euro)

SECURITISATION/ SPECIAL PURPOSE VEHICLE	REGISTERED OFFICE	CONSOLIDATION (a)	ASSETS (b)			LIABILITIES (b)		
			Loans	Debt securities	Other	Senior	Mezzanine	Junior
Adriano Lease Sec S.r.l. (c)	Conegliano Veneto (TV)	(e)	2,411	-	130	1,062	-	1,351
Apulia Finance n. 4 S.r.l. (c) (h)	Conegliano Veneto (TV)	(e)	62	-	12	-	-	59
Augusto S.r.l. (d)	Milano	(e)	-	-	2	13	-	-
Berica ABS 3 S.r.l. (h)	Vicenza	(e)	(f)	(f)	(f)	(f)	(f)	(f)
Berica ABS 4 S.r.l. (h)	Vicenza	Not consolidated	(f)	(f)	(f)	(f)	(f)	(f)
Brera Sec S.r.l. (c)	Conegliano Veneto (TV)	(e)	13,967	-	804	10,946	-	3,457
Clara S.r.l. (c)	Conegliano Veneto (TV)	(e)	6,573	-	1,220	6,350	-	824
Diocleziano S.r.l. (d)	Milano	(e)	1	-	1	49	-	-
Giada S.r.l. (c)	Conegliano Veneto (TV)	(e)	9,613	-	587	6,610	-	3,485
ISP CB Ipotecario S.r.l. (g)	Milano	Consolidated	16,401	-	4,454		19,896	
ISP CB Pubblico S.r.l. (g)	Milano	Consolidated	2,275	1,563	1,308		4,968	
ISP OBG S.r.l. (g)	Milano	Consolidated	46,391	-	8,461		54,756	
UBI Finance S.r.l. (g)	Milano	Consolidated	15,688	-	1,686		17,473	
UBI Finance CB2 S.r.l. (g)	Milano	Consolidated	-	-	3,004		2,868	
UBI SPV Lease 2016 S.r.l. (c)	Milano	(e)	2,799	-	394	2,100	-	1,001

(a) Consolidation method referring to the "prudential" scope.

(b) Figures gross of any intercompany relations.

(c) Self-securitisation vehicle described in Section 1.4 Banking Group - Liquidity Risk, Quantitative Information, paragraph 2, of the Notes to the consolidated financial statements.

(d) The amounts shown under assets and liabilities refer to the latest financial statement data available (31.12.2019).

(e) Vehicle consolidated using the equity method.

(f) For the financial statement disclosure concerning this vehicle, see the prospectus published in Section C.4 of the Notes to the consolidated financial statements.

(g) Vehicle used for the covered bond issue by the Intesa Sanpaolo Group. For more information, see Section D.4 in Part E of the Notes to the consolidated financial statements.

(h) Vehicle deriving from the acquisition of certain assets and liabilities of the former Venetian Banks

With regard to the securitisations structured by the Intesa Sanpaolo Group on its own assets, including those named Towers, K-Equity, Savoy, Kerma, Yoda, Maior, Iseo and Sirio, or – as sponsor – on third-party assets, in addition to those shown in the table above, other special purpose vehicles (mentioned in the paragraphs describing the individual transactions) were also used that are third-party and independent entities with respect to Intesa Sanpaolo and in which the Group does not hold any investments.

"Third-party" securitisations

The Intesa Sanpaolo Group also operates in the securitisations market as an investor, although the volume of the existing investments, in both banking and trading books, represents a very small part of the Bank's assets. These operations relate, on the one hand, to the diversification of the risk profile of the managed portfolio and the maximisation of the risk-return target, and on the other hand to the activities involving securities representing public loans, carried out by Group structures specialised in Public Finance.

Nature of the risks, including liquidity risk, relating to the securitised assets

In addition to credit risk, the securitised assets are subject to other types of risk. These include:

- liquidity risk;
- interest rate risk;
- foreign exchange risk.

The nature and scope of the different risks vary based on the type of transaction executed. Generally, in any case, the interest rate and exchange rate risks are subject to hedging transactions or are factored in the credit enhancement of the transaction. All securitised assets are also subject to different degrees of operational risk associated with the documentation and the collection of cash flows. In particular, the representation of third-party securitisations held in the Group securities portfolio for the purposes of liquidity risk considers the classifications and assessments made based on the fair value policy (see Section on Market risks), as well as their eligibility as high-quality liquid assets (HQLA) in accordance with the rules established by the Delegated Regulation 2015/61 and their eligibility for refinancing with Central Banks and liquidability, in the absence of which the securities are classified by residual maturity, based on their repayment plans and weighted average life.

Exposures to originated and third-party re-securitisations: type of risk

The Group's re-securitisations portfolio shows, in general, immaterial amounts in terms of value of the exposures (See Quantitative Disclosure of this Section).

Procedures for monitoring changes in credit and market risk of the securitisations

With regard to market risk, the ABS risk factor is not included in the Internal Model, as the product is securitised; therefore, neither the regulatory VaR nor the IRC are included. In relation to the monitoring of the management market risk, the ABS risk factor is fully included in the ordinary process laid down by the Market Risk Charter, an internal Group document that sets out the principles, instruments and purposes adopted to measure, control and manage market and counterparty risk.
In particular, for the positions in ABS securities issued by third parties belonging to the trading book and the HTCS book, the Financial and Market Risks Head Office Department carries out the calculation of the VaR to monitor the market risks with the "illiquid parameters" method, given the specific characteristics of the risk factor considered, and monitors their absorption according to the set VaR limits. In addition, the exposure to ABS is within the monitoring scope of the issuer risk (credit ceiling and concentration limits), as well as in other possible second level limits.
Furthermore, the Financial and Market Risks Head Office Department carries out the monthly calculation of fair value for accounting purposes for the positions in securitisations held in the trading books and those classified as HTCS. For the positions classified as HTC, this calculation is carried out for disclosure purposes on a half-yearly basis.
Finally, the Financial and Market Risks Head Office Department carries out the monthly analytical impairment analysis for the banking book securitisations in order to identify any losses realised and determine a consequent adjustment of the book value. This activity, described in detail below, is based on the analysis of the performance and of any deterioration in the credit standing of the collateral underlying the securitisations.

Risk hedging policies for exposures to securitisations and re-securitisations

No protection purchase strategies are currently in place. In the past, hedging strategies relied on listed indices (such as LCDX) or Credit Default Swaps.

External rating agencies used

The external rating agencies (ECAIs) used by the Intesa Sanpaolo Group for the purposes of calculating the risk-weighted exposures of securitisation positions (as already reported in Section 8 of this document) are the following (with regard both to positions with a short-term rating and positions with a rating other than short-term):

- Moody's investors Service;
- Standard & Poor's Rating Services;
- Fitch Ratings
- DBRS Limited.

Securitisations: methods for calculating the risk-weighted exposures

Intesa Sanpaolo, solely for securitisations originated or purchased from 1 January 2019, uses the SEC-IRBA (Securitisation – Internal Rating Based Approach), SEC-SA (Securitisation – Standard Approach) and SEC-ERBA (Securitisation – External Rating Based Approach) to calculate the capital requirement for credit risk from securitisations with underlying assets for which there is an internal model validated in the corresponding credit risk (the regulatory segments currently validated are: Large Corporate, Corporate, Specialized Lending, Public Sector Entities, Banks, Retail SME and Retail). For securitisations prior to 2019, the methods in force in previous years have been adopted throughout the year: IRB (Rating Based Approach - RBA and Supervisory Formula Approach - SFA) and Standardised Approach. From 1 January 2020, regardless of the date on which they were structured, securitisations will be subject to the SEC-IRBA, SEC-ERBA and SEC-SA Approaches.

Securitisations: accounting policies

The securitisation transactions, whose accounting treatment is governed by IFRS 9 (in particular in the paragraphs relating to derecognition), are divided into two types depending on whether the underlying assets must be derecognised from the seller's financial statements or not.

In the event of derecognition

When all the risks and rewards associated with the ownership of the securitised assets are effectively transferred, the transferor (originator) shall derecognise the transferred assets from its financial statements and record offsetting entries for the consideration received and any profit or loss from the sale.
If the total consideration received is not formed by an on-balance sheet sum, but partly by financial assets, the latter are initially recognised at fair value and this fair value is also used for the purpose of calculating the profit or loss on disposal.
If the transferred asset is part of a "greater" financial asset (for example, if only part of the cash flows that derive from a receivable is subject to disposal) and the transferred part meets the requirements for derecognition, the book value of the "greater" financial asset must be divided between the part that continues to be recognised and the part subject to derecognition based on the corresponding fair values at the transfer date.
Moreover, in case of derecognition, any arrangement costs incurred by the originator are recorded in the income statement when incurred as they are not attributable to any financial assets appearing in the financial statements.
Therefore, in light of the above, the assets sold are derecognised from the balance sheet, and the consideration from the sale, as well as the connected profit or loss, are normally recorded in the financial statements at the date of completion of the sale. More generally, the entry date for the transfer in the financial statements depends on the contractual clauses. For example, if the cash flows from the assets sold are transferred after the execution of the agreement, the assets are derecognised and the proceeds of the sale are recognised at the time of the transfer of the cash flows. Instead, in the case a

sale is subject to conditions precedent, the assets are derecognised and the profit or loss from the sale is recognised when the condition precedent clause ceases.
The profit or loss, recognised in the income statement, is classified, in principle and net of any other components, as the difference between the consideration received and the book value of the assets sold.

In the event of no derecognition

If a transfer does not require derecognition because the seller essentially maintains all the risks and benefits associated with the ownership of the transferred assets, the seller continues to recognise in its financial statements the assets transferred in total and recognises a financial liability against the consideration received.
A common example of transfer which does not result in derecognition is when the originator sells a loan portfolio to a special purpose vehicle, but subscribes in full for the junior class of securities issued by the latter (therefore retaining the majority of the risks and rewards of the underlying assets) and/or provides a collateral for the transaction.
Therefore, in the event of no derecognition, the loans subject to securitisation continue to be entered in the balance sheet of the seller; furthermore, after the sale, the seller is obliged to record any income from the transferred asset and any charge incurred on the liability entered without any netting of the costs and revenues.
The transferred loan portfolio continues to be classified in the loan category that it originally formed part of and, consequently, if it meets the adequate requirements, it continues to be measured at amortised cost and valued (individually or on a collective basis) as if the transaction had never taken place.
In this case too, considering the provisions of IFRS 9 on the matter, the arrangement costs directly incurred by the originator are recorded in the income statement when they are sustained.

Provisions for guarantees given and commitments

Provisions made on an individual and collective basis, related to estimated possible disbursements connected to credit risk relative to guarantees and commitments, possibly included in the securitisation transactions, determined applying the same criteria set out with respect to other types of loans and receivables, are recorded under Other liabilities, as set out by Bank of Italy instructions.

Assessment of exposures to securitisations - banking book

For securitisations, the need to recognise impairment is assessed if the fair value is lower than the carrying amount by a percentage set a priori (30%), or if there is potential evidence of impairment. This process has not changed compared to the previous year.
If one of these conditions is in place, the securitisation is analysed to check whether the decrease in fair value is due to a generic increase of the spreads on the secondary market or an impairment of the collateral. In the former case the conditions are not met to proceed to the impairment; instead, in the latter the analysis focuses on the performance of the underlying elements, which constitute the vehicle's assets, and the methods with which such performance is reflected on the payment waterfall for the securities analysed.
Specifically, the procedure involves the following steps:

- monitoring the parameters/triggers/covenants envisaged at issue, which is the basis of the regulation of the payment waterfall or, as an extreme measure, the advance termination of the deal. This analysis is based on the set of information consisting of the periodic reports from the vehicle administrators and rating agencies, together with the issuance documents (prospectus, master receivables agreement etc.);
- specifically for securitisations originated by Intesa Sanpaolo, which have reliable business plans, the analysis is conducted on available cash flows. For non-performing products, reference is made to adjustments to the underlying loans, the recovery plan prepared and updated by the servicer, and the features of the payment waterfall.

If, as a result of said analysis, there is no evidence of breaches which could compromise payments of principal and interest, it is not necessary to record impairment of the security in the portfolio. Otherwise, if there is the possibility of (full or partial) non-payment of the principal or interest, due to a change in the payment priority and/or impairment of the collateral, the security must be impaired.
Impairment is assessed:

- by comparing the residual market value of the collateral and the outstanding amounts of the notes based on the attachment and detachment points, in the event of credit events that result in advance termination of the transaction;
- if a trigger or a covenant is activated, the fair value is recalculated based on the new rules and the new available cash flows are allocated to the tranches in the portfolio, in accordance with the new payment priorities.

In summary, for all the securitisations classified in the banking book, the impairment analysis is carried out based on the valuation of the collateral to determine the overall flows deriving from the primitive assets. These flows are allocated to the tranches of the securitisation based on all the structuring and performance characteristics of the collateral (waterfall, trigger, CDR, CPR, etc.). The Intex and Bloomberg software is used for the allocation of the cash flows to the individual tranches, except for a small number of private securitisations only, where cash flow models are used. They are developed internally during the structuring of the deal and duly updated with the performance of the collateral.

Assessment of exposures to securitisations - trading book

Exposures included in the trading book are measured at fair value. For an illustration of the valuation techniques used to determine fair value, see the relevant chapter (see Section 13 - Market risk).

Synthetic securitisations

Synthetic securitisations are usually recognised on the basis of the following rules.
The loans subject to synthetic securitisation continue to be recorded among the assets of the bank (protection buyer) that has retained their full ownership. The premium paid by the bank to the protection seller for the purchase of the protection contract is recorded under commission expense in the income statement, where the premiums relating to the guarantees received are recorded. The financial guarantee received from the protection seller also contributes to the determination of the adjustments made to the loans subject to the guarantee (overall and, where applicable, specific).
Any deposit liabilities received by the bank, also as a result of the issue of notes by vehicles that sell portions of the risk acquired from the protection seller in the market, are recorded under payables in the balance sheet liabilities.

Securitisations: recognition criteria for prudential purposes

The prudential regulations on securitisations are regulated by the CRR, as amended by Regulation (EU) 2017/2401 in particular in Part 3, Title II, Chapter 5 and Part 5 – Securitisations and Part 5 – Exposures to transferred credit risk.
The following additional provisions complete the above regulatory framework:

- Regulation (EU) 2017/2402 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) 1060/2009 and (EU) 648/2012;
- Commission Delegated Regulation (EU) 2019/885 of 5 February 2019 supplementing the above-mentioned Regulation (EU) 2017/2402 of the European Parliament and of the Council with regard to regulatory technical standards specifying information to be provided to a competent authority in an application for authorisation of a third party assessing STS compliance;
- Commission Delegated Regulation (EU) 2019/1851 of 28 May 2019 supplementing Regulation (EU) 2017/2402 of the European Parliament and of the Council with regard to regulatory technical standards on the homogeneity of the underlying exposures in securitisation;
- Delegated Regulation (EU) 625/2014 of 13 March 2014 which concerns the regulatory technical standards specifying the requirements for investor, sponsor, original lender and originator institutions relating to exposures to transferred credit risk, and is in force solely for specific provisions applicable to securitisations whose securities were issued before 1 January 2019;
- Implementing regulation (EU) 602/2014 of 4 June 2014 laying down implementing technical standards for facilitating the convergence of supervisory practices with regard to the implementation of additional risk weights relating to securitisation transactions.
- Implementing regulation (EU) 2016/1801 of 11 October 2016 on laying down implementing technical standards with regard to the mapping of credit assessments of external credit assessment institutions for securitisation in accordance with the CRR;
- EBA Guidelines on implicit support for securitisation transactions (GL/2016/08) aimed at providing guidance on arm's length conditions and when a transaction is not structured to provide implicit support, according to Article 250 of Regulation 2017/2401 (former Article 248 CRR); a subject that is also referred to in the ECB's letter of July 2017, which provides guidance on the additional requirements relating to the notification and the documentation referred to in that article;
- EBA Guidelines on significant credit risk transfer (GL/2014/05) pursuant to Articles 244 and 245 of Regulation 2017/2401 (former Articles 243 and 244 CRR); a subject that is also referred to in the ECB's letter of 24 March 2016, which provides additional guidance to the industry regarding the recognition of the significant credit risk transfer.

Although the prudential regulations indicated clearly have similarities with the IAS/IFRS measurement criteria, the accounting treatment of securitisations is not relevant for the purposes of recognition for prudential purposes. As a result, the accounting and prudential treatment applied by intermediaries may differ.

Exposures to originated and third-party re-securitisations – exposures covered by credit risk mitigation techniques

It is specified that the exposures referring to re-securitisations did not benefit from credit risk mitigation techniques.

Securitisations carried out during the period

- ***GARC Securitisations***

  As part of the "GARC" operations, four synthetic securitisations were finalised during the year: GARC Leasing-1, GARC CORP-3, GARC Energy Renewables-1 and GARC SME-9.

  For the first three transactions indicated, the junior risk relating to the following portfolios was sold to specialist investors:

  - around 1.5 billion euro in finance leases to approximately 2,500 businesses in the Corporate regulatory segment, valued using internal models (Advanced IRB). For that transaction, Intesa Sanpaolo holds 5% of the securitised portfolio in compliance with the retention rule laid down by the supervisory regulations;
  - around 3.1 billion euro in loans to approximately 500 businesses in the Corporate regulatory segment, valued using internal models (Advanced IRB). For that transaction, Intesa Sanpaolo holds 5% of the securitised portfolio in compliance with the retention rule laid down by the supervisory regulations;
  - around 1.3 billion euro in loans and leases relating to 42 projects on renewable energy, mainly located in Italy and valued using internal models (Advanced IRB). For that transaction, Intesa Sanpaolo holds 10% of the securitised portfolio in compliance with the retention rule laid down by the supervisory regulations.

  As part of the GARC SME-9 operation, the mezzanine risk relating to a portfolio of approximately 1.8 billion euro in loans to approximately 4,000 businesses in the Corporate and Corporate SME regulatory segments, valued using internal models (Advanced IRB), was transferred to the European Investment Fund (EIF). The initiative, realised in cooperation with the European Investment Bank (EIB), aims to provide new loans totalling 450 million euro to SMEs and midcaps damaged by the emergency caused by the COVID-19 epidemic.

  For this latter transaction, Intesa Sanpaolo holds 5% of the securitised portfolio in compliance with the retention rule laid down by the supervisory regulations.

  Overall, the portfolios of the transactions mainly consist of customers operating in Northern Italy.

- ***Tranched Cover Fondo di Garanzia per le PMI Securitisation***

  During 2020, as part of operations with the Guarantee Fund for SMEs, a tranched cover transaction was finalised on a newly issued portfolio dedicated to new entrepreneurship in the Veneto Region. In particular, the Fund's guarantee, increased also using the resources provided by the Veneto Region Special Section, covers the junior risk of a portfolio of loans amounting to approximately 15 million euro to around 90 businesses in the Veneto Region.

  For these transactions, Intesa Sanpaolo holds 20% of the securitised portfolio in compliance with the retention rule laid down by the supervisory regulations.

  During the year, four new portfolios were admitted to the guarantee of the Fund, for a total amount of around 1.3 billion euro, activated to support businesses damaged by the COVID-19 emergency. The ramp-up of those portfolios will be completed from the second half of 2021 to the initial months of 2022.

- ***"Tranched Cover Piemonte 2017 – Linea A" Securitisation***

  During the year – again as part of the GARC Project – the "Line A" portfolio was completed relating to a tranched cover synthetic securitisation on newly-issued loans promoted by the Piedmont Regional Authority under the 2014-2020 Regional Operational Programme of the European Regional Development Fund – Axis III "Competitiveness of production systems" – Thematic Objective III.3 "Promoting competitiveness of SMEs" – "Measure to support access to credit for piedmontese SMEs through the establishment of the 2017 Tranched Cover Piemonte Fund". This transaction involves the issue of collateral on the junior tranche by Finpiemonte S.p.A. to cover the credit risk relating to a portfolio of around 109 million euro of loans to around 500 companies in Piedmont.

  For this transaction, Intesa Sanpaolo holds 100% of the senior tranches and 20% of the junior tranches in compliance with the retention rule laid down by the supervisory regulations.

- ***Yoda Securitisation***

  As part of the wider de-risking strategy envisaged in the 2018-2021 Business Plan, in December 2020 the Intesa Sanpaolo Group launched and completed a process to deconsolidate a loan portfolio of Intesa Sanpaolo classified as "bad loans", through a securitisation and subsequent application for issue of a "GACS" government guarantee for the holders of senior notes issued as part of the transaction, once those senior notes had obtained an "investment grade" rating of no less than BBB or equivalent, as envisaged by Italian Law no. 49/2016.

  The portfolio, identified at the cut-off date of 30 June 2020, has a GBV (Gross Book Value) of approximately 4.5 billion euro (4.3 billion euro at the sale date in December 2020) and a NBV (Net Book Value) of approximately 1.3 billion euro (1.2 billion euro at the sale date).

  The transaction was structured in two main phases:

  (i) "self-securitisation": in that phase, the sale of the portfolio to a securitisation vehicle, Yoda SPV S.r.l., established pursuant to Italian Law 130/99, was completed, with ISP fully subscribing the senior, mezzanine and junior notes issued by the SPV to finance the purchase price of the portfolio. At the time of issue of the notes, ISP disbursed a loan with limited recourse as a liquidity facility for said SPV. In this phase of the transaction, as the risks and rewards of the assets sold had not yet been transferred, the portfolio continued to be consolidated in the ISP financial statements. Concurrent with the issue of the securitisation notes, Moody's, DBRS and Scope issued ratings for the senior class of notes - investment grade "BBB" or equivalent (i.e. BBB for DBRS and Scope, Baa2 for Moody's);

  (ii) "placement" of the subordinated mezzanine and junior notes and deconsolidation of the portfolio sold from the accounts: in that phase, the process of due diligence by the investors was completed and, following receipt of binding offers for the sale of 95% of the mezzanine and junior notes, ISP finalised the sale of the notes to third-party investors on 23 December 2020. Following the sale, the accounting and regulatory derecognition of the portfolio was finalised, and the GACS guarantee was applied for from the Ministry of the Economy and Finance and Concessionaria Servizi Assicurativi Pubblici.

The securitised assets were broken down as follows by geographical area:
- 31.2% North-West;
- 23.9% North-East;
- 23.7% Centre;
- 20.8% South and Islands;
- 0.4% Outside Italy.

The breakdown of the assigned debtors by economic sector was mainly concentrated in the following sectors:
- "Construction companies" at 30.9%;
- “Manufacturing" at 18.5%;
- “Distribution" at 16.6%;
- "Real estate business" at 13.6%;
- and a residual amount in other business sectors (Services, Transport, Agriculture, Fashion Industry, Finance and Insurance, Utilities, and others).

In relation to the sale of the portfolio, the SPV issued three different classes of notes (senior, mezzanine and junior) with the following tranching:
- Senior notes: 81% of the sale price, equal to 1,010 million euro in nominal value;
- Mezzanine notes: 17% of the sale price, equal to 210 million euro in nominal value;
- Junior notes: 2% of the sale price, equal to 20 million euro in nominal value.

In this regard, the notes subscribed by Intesa Sanpaolo, due to the business model used and the look-through test carried out, have been classified as follows:
- senior tranches under securities at amortised cost;
- mezzanine and junior tranches under securities measured at FVTPL.

- ***Sirio Securitisation***

In December 2020, UBI Banca finalised the deconsolidation of a portfolio of loans classified as bad loans, through a securitisation with senior, mezzanine and junior issues. The senior notes issued as part of the transaction obtained an investment grade rating (BBB) and, therefore, it was also possible to apply for the issue of the “GACS” government guarantee in favour of the holders of this class of notes, as envisaged by Italian Law no. 49/2016.
The portfolio is composed of around 22,600 accounts, corresponding to approximately 14,300 borrowers, mainly SMEs, with a GBV of around 1 billion euro.
The breakdown of the assigned debtors by economic sector was mainly concentrated as follows:
- Non-financial companies - around 77%;
- Financial companies - around 1%;
- Other - around 22%.

The securitised assets were broken down as follows by geographical area:
- North - around 52.5%;
- Centre - around 29%;
- South and Islands - around 18%;
- Outside Italy - around 0.5%

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The transaction was structured through the sale of the loans to a securitisation vehicle, Sirio SPV S.r.l. (“SPV”), established pursuant to Italian Law no. 130/99, with UBI Banca fully subscribing the senior, mezzanine and junior notes issued by the SPV to finance the purchase price of the portfolio. At the time of issue of the notes, UBI Banca also disbursed a loan with limited recourse as a liquidity facility for said SPV. Concurrent with the issue of the securitisation notes, DBRS and Scope issued ratings for the senior class of notes - investment grade “BBB”.
A due diligence process was then completed by third-party investors to which UBI Banca sold 95% of the junior and mezzanine notes on 23 December 2020. Following the sale, the accounting and regulatory derecognition of the portfolio was finalised, and the GACS guarantee was applied for from the Ministry of the Economy and Finance and Concessionaria Servizi Assicurativi Pubblici.
The three different classes of notes (senior, mezzanine and junior) issued by the SPV, with the related tranching, were as follows:
- Senior notes: 86% of the sale price, equal to 290 million euro in nominal value;
- Mezzanine notes: 11% of the sale price, equal to 35 million euro in nominal value;
- Junior notes: 3% of the sale price, of around 10 million euro in nominal value.

Lastly, the notes subscribed by UBI Banca, due to the business model used and the look-through test carried out, also in line with the approach adopted by Intesa Sanpaolo, have been classified as follows:
- senior tranches under securities at amortised cost;
- mezzanine and junior tranches under securities measured at FVTPL.

Total amount of assets awaiting securitisation

In 2011, Mediocredito Italiano entered into two agreements with the Ministry of Economic Development, which provide subsidies in the form of cash collateral provided as pledge to the bank for two portfolios of credit exposures to be disbursed to SMEs for purposes envisaged by the Italian National Innovation Fund (FNI).
For each of the agreements signed, the loan portfolio was divided into two separate tranches: a junior tranche, exposed to initial losses, and a senior tranche, with a rating equivalent to A-. As a guarantee for the two portfolios, the Bank has received a total cash collateral amount of 16.4 million euro, into an interest-bearing deposit account, provisionally calculated based on the estimate of available portfolios.
The construction of portfolios regarding the first and second agreement was developed starting from 2011 and from 2012 and it was completed, as contractually agreed, on 31 October 2014.
Given the specific investment objectives indicated by the aforementioned agreements, applications for special-purpose loans were limited and a limited number of transactions could be carried out (overall, a total of 23 transactions were finalised – including 12 redeemed in advance or matured and 2 in default and 1 sold – with a total residual value at 31 December 2020 of 1.570 million euro.
This cash collateral, due to the pledge agreements entered into on 18 April 2016 between the Ministry of Economic Development and MCI and to ministerial decrees no. 3555 and 3556 of 16 June 2016, was decreased in 2016 and 2017, to be replaced by two pledges guaranteeing the residual portfolios, originally totalling 1.6 million euro.

Quantitative disclosure

The tables below detail the net exposures and adjustments for the securitisations. The figures in the tables represent the exposures shown in the financial statements, and include both the positions relating to the banking book and the regulatory trading book.

Securitisations: breakdown of on-balance sheet exposures deriving from main originated securitisations by type of securitised asset and by type of exposure

(millions of euro)

Type of securitised asset/ Exposure	On-balance sheet exposures (*)					
	Senior		Mezzanine		Junior	
	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries
A. Fully derecognised for prudential and financial statement purposes	**3,469**	**-12**	**238**	**-**	**188**	**-127**
A.1 Savoy (**)						
- Loans to businesses including SMEs	*213*	*-2*	*209*	*-*	*178*	*-127*
A.2 Towers S.r.l.						
- Consumer credit	*1*	*-*	*-*	*-*	*2*	*-*
A.3 Kerma (**)						
- Loans to businesses including SMEs	*1,173*	*-7*	*20*	*-*	*7*	*-*
A.4 Yoda (**)						
- Loans to businesses including SMEs	*1,050*	*-2*	*3*	*-*	*-*	*-*
A.5 Maior (**)						
- Residential mortgage loans	*456*	*-*	*3*	*-*	*1*	*-*
A.6 Iseo (**)						
- Residential mortgage loans	*287*	*-*	*1*	*-*	*-*	*-*
A.7 Sirio (**)						
- Loans to businesses including SMEs	*289*	*-1*	*2*	*-*	*-*	*-*
B. Partly derecognised for prudential and financial statement purposes	**-**	**-**	**-**	**-**	**-**	**-**
C. Not derecognised for prudential and financial statement purposes	**21,187**	**-53**	**223**	**-11**	**367**	**-6**
C.1 GARC (***)						
- Loans to businesses including SMEs	*15,189*	*-16*	*-*	*-*	*85*	*-*
- Residential mortgage loans	*713*	*-1*	*-*	*-*	*2*	*-*
- Leases	*1,247*	*-1*	*-*	*-*	*6*	*-*
C.2 Tranched Cover Piemonte (***)						
- Loans to businesses including SMEs	*4*	*-*	*-*	*-*	*-*	*-*
C.3 Sme Initiative Italy (***)						
- Loans to businesses including SMEs	*142*	*-2*	*1*	*-*	*7*	*-*
C.4 Tranched Cover Fondo Centrale di Garanzia (***)						
- Loans to businesses including SMEs	*791*	*-2*	*-*	*-*	*18*	*-*
C.5 Tranched Cover Piemonte 2017 – Linea B (***)						
- Loans to businesses including SMEs	*5*	*-*	*-*	*-*	*-*	*-*
C.6 K Equity (**)						
- Loans to businesses including SMEs	*37*	*-12*	*30*	*-7*	*18*	*-1*
C.7 Berica ABS 3						
- Residential mortgage loans	*-*	*-*	*50*	*-1*	*115*	*-3*
C.8 Berica ABS 4						
- Residential mortgage loans	*19*	*-*	*123*	*-2*	*95*	*-2*
C.9 Tranched Cover Piemonte 2017 – Linea A (***)						
- Loans to businesses including SMEs	*70*	*-*	*-*	*-*	*2*	*-*
C.10 UBI2017 - FEI (***)						
- Loans to businesses including SMEs	*307*	*-9*	*19*	*-1*	*10*	*-*
C.11 UBI2018 - RegCap 2 (***)						
- Loans to businesses including SMEs	*1,016*	*-5*	*-*	*-*	*5*	*-*
C.12 UBI2019 - RegCap 3 (***)						
- Loans to businesses including SMEs	*1,647*	*-5*	*-*	*-*	*4*	*-*
TOTAL 31.12.2020	**24,656**	**-65**	**461**	**-11**	**555**	**-133**
TOTAL 31.12.2019	**17,363**	**-32**	**658**	**-38**	**781**	**-3**

(*) Originated securitisations are included in the banking book. By way of addition to the information presented in the table, it should be noted that losses on disposal recognised by the Group were less than 1 million euro for the Mezzanine and Junior exposures, whereas there were no losses of this kind for the Senior exposures.

(**) The amount refers to non-performing financial assets.

(***) The transactions included in the above-mentioned "GARC" project (and referred to as "GARC", "Tranched Cover Piemonte", "SME Initiative Italy", "Tranched Cover Fondo Centrale di Garanzia" and Tranched Cover Piemonte 2017 - Linea B and Linea A) are synthetic securitisations. The transactions named UBI2017 - FEI, UBI2018 - RegCap 2 and UBI2019 - RegCap 3 are also synthetic securitisations coming from the merger of the UBI Banca Group into the Intesa Sanpaolo Group.

Securitisations: breakdown of off-balance sheet exposures deriving from main originated securitisations by type of securitised asset and by type of exposure

As at 31 December 2020 this case was not present.

Securitisations: breakdown of on-balance sheet exposures deriving from main third-party securitisations by type of securitised asset and by type of exposure

(millions of euro)

Type of securitised asset/ Exposure	On-balance sheet exposures (*)					
	Senior (**)		Mezzanine		Junior	
	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries
Other assets (***)	5,990	5	-	-	-	-
- Banking book	5,990	5	-	-	-	-
- Trading book	-	-	-	-	-	-
Securitisations	154	-7	-	-	-	-
- Banking book	154	-7	-	-	-	-
- Trading book	-	-	-	-	-	-
Consumer credit	246	-	65	-3	-	-
- Banking book	219	-	-	-	-	-
- Trading book	27	-	65	-3	-	-
Trade receivables	522	4	14	-	1	-
- Banking book	451	2	-	-	-	-
- Trading book	71	2	14	-	1	-
Leasing	-	-	11	-	2	-
- Banking book	-	-	10	-	-	-
- Trading book	-	-	1	-	2	-
Commercial mortgage loans	113	-5	20	-4	-	-
- Banking book	39	-2	-	-	-	-
- Trading book	74	-3	20	-4	-	-
Residential mortgage loans	645	-2	101	-	-	-
- Banking book	507	-2	29	-	-	-
- Trading book	138	-	72	-	-	-
Loans to businesses (including SME) (****)	962	-1	275	-	6	-1
- Banking book	802	-1	67	-	1	-
- Trading book	160	-	208	-	5	-1
Covered bonds	47	-	16	-	-	-
- Banking book	32	-	-	-	-	-
- Trading book	15	-	16	-	-	-
TOTAL 31.12.2020	**8,679**	**-6**	**502**	**-7**	**9**	**-1**
- Banking book	**8,194**	**-5**	**106**	**-**	**1**	**-**
- Trading book	**485**	**-1**	**396**	**-7**	**8**	**-1**
TOTAL 31.12.2019	**9,633**	**-4**	**605**	**-6**	**79**	**-9**
of which: Banking book	***8,478***	***-8***	***201***	***-10***	***74***	***-8***
of which: Trading book	***1,155***	***4***	***404***	***4***	***5***	***-1***

(*) By way of addition to the information presented in the table, it should be noted that, with regard to banking book positions, the losses on disposal recognised by the Group amounted to less than 1 million euro for the Senior and Mezzanine exposures, whereas there were no losses of this kind for the Junior exposures.

(**) It should be noted that, by convention, senior exposures have also been considered to include 4.742 million euro of mono-tranche securities, which for prudential supervision purposes are not regarded as securitisation positions.

(***) The amount also includes the Romulus securities for 4,097 million euro held in the banking group's portfolio and generally presented among third-party securitisations. These securities are included in the portfolio, but are not weighted for supervisory purposes, because the off-balance sheet positions included among third-party underlying assets have already been subject to weighting. The aggregate includes the loans to the vehicle Duomo Funding Plc of 1,384 million euro as a result of the use of credit lines.

(****) The exposures include non-performing financial assets amounting to 41 million euro in Mezzanine exposures and 1 million euro in Junior exposures, respectively. The aggregate also includes debt securities issued by the securitisation vehicle set up as part of the sale of Cassa di Risparmio di Cesena, Cassa di Risparmio di Rimini and Cassa di Risparmio di San Miniato to Crédit Agricole by the National Interbank Deposit Guarantee Fund - Voluntary Scheme, which the Group participates in. The related Junior Notes were fully written down.

Securitisations: breakdown of off-balance sheet exposures deriving from main third-party securitisations by type of securitised asset and by type of exposure

(millions of euro)

Type of securitised asset/Exposure	GUARANTEES GIVEN						CREDIT LINES					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries
Duomo ABCP Conduit transactions	-	-	-	-	-	-	(*)	(*)	-	-	-	-
Total 31.12.2020	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total 31.12.2019	**-**	**-**	**-**	**-**	**-**	**-**	**6,211**	**-21**	**-**	**-**	**-**	**-**

(*) With regard to the transactions carried out through Duomo Funding Plc and funded by ABCP, Intesa Sanpaolo has granted credit lines (amounting to 4,392 million euro in terms of net exposures and 3 million euro of adjustments) to secure the assets included under “Other assets” in the table above relating to third-party on-balance sheet exposures.

Breakdown of net exposures to securitisations by financial assets portfolio and by type of exposure

(millions of euro)

Exposure/Portfolio	On-balance sheet exposures (*)			Off-balance sheet exposures (*)		
	Senior	Mezzanine	Junior	Senior	Mezzanine	Junior
Financial assets held for trading	485	396	8	-	-	-
Financial assets measured at fair value through profit or loss	24	238	188	-	-	-
Financial assets measured at fair value through other comprehensive income	1,061	56	-	-	-	-
Financial assets measured at amortised cost (**)	10,578	12	-	4,392	-	-
TOTAL 31.12.2020	**12,148**	**702**	**196**	**4,392**	**-**	**-**
TOTAL 31.12.2019	**11,184**	**861**	**398**	**6,211**	**-**	**-**

(*) Not including on-balance sheet exposures arising from originated securitisations in which the assets transferred have not been fully derecognised, in the total amount of 21,818 million euro. As at 31 December 2020, there were no off-balance sheet exposures arising from originated securitisations in which the assets transferred have not been fully derecognised.

(**) Off-balance sheet exposures, composed of "Guarantees issued" and “Credit lines", have been included in this caption by convention.

Securitisations: weighted amount of securitisation positions based on risk weight bands - Standardised approach (SEC-SA and SEC-ERBA)

(millions of euro)

Risk weight bands (**)	31.12.2020		31.12.2019	
	Originated securitisations	Third-party securitisations	Originated securitisations	Third-party securitisations
Weight ≤ 20%	134	929	124	458
Weight >20% up to 50%	-	95	2	345
Weight >50% up to 100%	-	1,463	3	3,303
Weight >100% up to 1250% (excluded)	8	1,414	19	631
Weight 1250% - deduction (*)	-	-	-	-
Total	**142**	**3,901**	**148**	**4,737**

(*) Starting from 2016 the exposures towards securitisations that meet the requirements for the application of the weighting factor at 1250% are deducted from own funds. For details see Section 3 Own Funds.

(**) The new methodologies introduced by Regulation (EU) 2401/2017, amending Regulation (EU) 575/2013, apply to all the securitisations held by the institution starting from 1 January 2020. In 2019, in accordance with the transitional provisions, the new methodologies were only applied to transactions whose securities were issued during the year. The methodologies in Regulation (EU) 575/2013 prior to the update were applied for the other securities.

Securitisations: weighted amount of securitisation positions based on risk weight bands - IRB approach (SEC – IRBA)

(millions of euro)

Risk weight bands (**)	31.12.2020		31.12.2019	
	Originated securitisations	Third-party securitisations	Originated securitisations	Third-party securitisations
Weight ≤ 20%	2,973	9	1,962	176
Weight >20% up to 50%	485	-	116	61
Weight >50% up to 100%	291	-	-	24
Weight >100% up to 1250% (excluded)	2,584	753	1,628	1,193
Weight 1250% - deduction (*)	-	-	-	-
Total	**6,333**	**762**	**3,706**	**1,454**

(*) Starting from 2016 the exposures towards securitisations that meet the requirements for the application of the weighting factor at 1250% are deducted from own funds. For details see Section 3 Own Funds.

(**) The new methodologies introduced by Regulation (EU) 2401/2017, amending Regulation (EU) 575/2013, apply to all the securitisations held by the institution starting from 1 January 2020. In 2019, in accordance with the transitional provisions, the new methodologies were only applied to transactions whose securities were issued during the year. The methodologies in Regulation (EU) 575/2013 prior to the update were applied for the other securities.

The tables above detail the exposures to securitisations by weight band. Details of the exposures included in the banking book and the regulatory trading book are shown in the following tables, including information on the re-securitisations.

Additional information on market risks of the trading book, including the capital requirement in relation to the securitisations included in that book, is set out in the Section of this document on market risks, which also presents separately the requirements relating to exposures to securitisations in the trading book.

Banking Book securitisations: weighted amounts and requirements of securitisation positions based on risk weight bands - Standardised approach (SEC-SA and SEC-ERBA)

(millions of euro)

Risk weight bands (**)	Originated securitisations	*of which: Re-securitisations*	Third-party securitisations	*of which: Re-securitisations*
Weighted amounts (RWA)				
Weight ≤ 20%	134	-	867	-
Weight >20% up to 50%	-	-	86	-
Weight >50% up to 100%	-	-	1,403	*1*
Weight >100% up to 1250% (excluded)	8	-	249	-
Weight 1250% - deduction (*)	-	-	-	-
Total RWA Banking book as at 31.12.2020	**142**	**-**	**2,605**	***1***
Total RWA Banking book as at 31.12.2019	**147**	**-**	**4,036**	**-**
Capital requirements				
Weight ≤ 20%	11	-	69	-
Weight >20% up to 50%	-	-	7	-
Weight >50% up to 100%	-	-	112	-
Weight >100% up to 1250% (excluded)	1	-	20	-
Weight 1250% - deduction (*)	-	-	-	-
Total Requirements Banking book as at 31.12.2020	**12**	**-**	**208**	**-**
Total Requirements Banking book as at 31.12.2019	**12**	**-**	**323**	**-**

(*) Starting from 2016 the exposures towards securitisations that meet the requirements for the application of the weighting factor at 1250% are deducted from own funds. For details see Section 3 Own Funds.

(**) The new methodologies introduced by Regulation (EU) 2401/2017, amending Regulation (EU) 575/2013, apply to all the securitisations held by the institution starting from 1 January 2020. In 2019, in accordance with the transitional provisions, the new methodologies were only applied to transactions whose securities were issued during the year. The methodologies in Regulation (EU) 575/2013 prior to the update were applied for the other securities.

Trading Book securitisations: weighted amounts and requirements of securitisation positions based on risk weight bands - Standardised approach (SEC-SA and SEC-ERBA)

(millions of euro)

Risk weight bands (**)	Originated securitisations	*of which: Re-securitisations*	Third-party securitisations	*of which: Re-securitisations*
Weighted amounts (RWA)				
Weight ≤ 20%	-	-	62	-
Weight >20% up to 50%	-	-	9	-
Weight >50% up to 100%	-	-	60	-
Weight >100% up to 1250% (excluded)	-	-	1,165	-
Weight 1250% - deduction (*)	-	-	-	-
Total RWA Trading book as at 31.12.2020	**-**	**-**	**1,296**	**-**
Total RWA Trading book as at 31.12.2019	**1**	**-**	**701**	**-**
Capital requirements				
Weight ≤ 20%	-	-	5	-
Weight >20% up to 50%	-	-	1	-
Weight >50% up to 100%	-	-	5	-
Weight >100% up to 1250% (excluded)	-	-	93	-
Weight 1250% - deduction (*)	-	-	-	-
Total Requirements Trading book as at 31.12.2020	**-**	**-**	**104**	**-**
Total Requirements Trading book as at 31.12.2019	**-**	**-**	**56**	**-**

(*) Starting from 2016 the exposures towards securitisations that meet the requirements for the application of the weighting factor at 1250% are deducted from own funds. For details see Section 3 Own Funds.

(**) The new methodologies introduced by Regulation (EU) 2401/2017, amending Regulation (EU) 575/2013, apply to all the securitisations held by the institution starting from 1 January 2020. In 2019, in accordance with the transitional provisions, the new methodologies were only applied to transactions whose securities were issued during the year. The methodologies in Regulation (EU) 575/2013 prior to the update were applied for the other securities.

Banking Book securitisations: weighted amounts and requirements of securitisation positions based on risk weight bands - IRB approach (SEC - IRBA)

(millions of euro)

Risk weight bands (**)	Originated securitisations	*of which: Re-securitisations*	Third-party securitisations	*of which: Re-securitisations*
Weighted amounts (RWA)				
Weight ≤ 20%	2,973	-	9	-
Weight >20% up to 50%	485	-	-	-
Weight >50% up to 100%	291	-	-	-
Weight >100% up to 1250% (excluded)	2,584	-	753	-
Weight 1250% - deduction (*)	-	-	-	-
Total RWA Banking book as at 31.12.2020	**6,333**	**-**	**762**	**-**
Total RWA Banking book as at 31.12.2019	**3,706**	**-**	**1,162**	***250***
Capital requirements				
Weight ≤ 20%	238	-	1	-
Weight >20% up to 50%	39	-	-	-
Weight >50% up to 100%	23	-	-	-
Weight >100% up to 1250% (excluded)	206	-	60	-
Weight 1250% - deduction (*)	-	-	-	-
Total Requirements Banking book as at 31.12.2020	**506**	**-**	**61**	**-**
Total Requirements Banking book as at 31.12.2019	**296**	**-**	**93**	***20***

(*) Starting from 2016 the exposures towards securitisations that meet the requirements for the application of the weighting factor at 1250% are deducted from own funds. For details see Section 3 Own Funds.

(**) The new methodologies introduced by Regulation (EU) 2401/2017, amending Regulation (EU) 575/2013, apply to all the securitisations held by the institution starting from 1 January 2020. In 2019, in accordance with the transitional provisions, the new methodologies were only applied to transactions whose securities were issued during the year. The methodologies in Regulation (EU) 575/2013 prior to the update were applied for the other securities.

Trading Book securitisations: weighted amounts and requirements of securitisation positions based on risk weight bands - IRB approach (SEC - IRBA)

(millions of euro)

Risk weight bands (**)	Originated securitisations	*of which: Re-securitisations*	Third-party securitisations	*of which: Re-securitisations*
Weighted amounts (RWA)				
Weight ≤ 20%	-	-	-	-
Weight >20% up to 50%	-	-	-	-
Weight >50% up to 100%	-	-	-	-
Weight >100% up to 1250% (excluded)	-	-	-	-
Weight 1250% - deduction (*)	-	-	-	-
Total RWA Trading book 31.12.2020	**-**	**-**	**-**	**-**
Total RWA Trading book 31.12.2019	**-**	**-**	**292**	**-**
Capital requirements				
Weight ≤ 20%	-	-	-	-
Weight >20% up to 50%	-	-	-	-
Weight >50% up to 100%	-	-	-	-
Weight >100% up to 1250% (excluded)	-	-	-	-
Weight 1250% - deduction (*)	-	-	-	-
Total Requirements Trading book as at 31.12.2020	**-**	**-**	**-**	**-**
Total Requirements Trading book as at 31.12.2019	**-**	**-**	**23**	**-**

(*) Starting from 2016 the exposures towards securitisations that meet the requirements for the application of the weighting factor at 1250% are deducted from own funds. For details see Section 3 Own Funds.

(**) The new methodologies introduced by Regulation (EU) 2401/2017, amending Regulation (EU) 575/2013, apply to all the securitisations held by the institution starting from 1 January 2020. In 2019, in accordance with the transitional provisions, the new methodologies were only applied to transactions whose securities were issued during the year. The methodologies in Regulation (EU) 575/2013 prior to the update were applied for the other securities.

Section 13 - Market risk

MARKET RISK/TRADING BOOK

Risk management strategies and processes

The allocation of capital for trading activities is set by the Parent Company's Board of Directors, through the attribution of operating limits in terms of VaR to the various Group units.
The overall limits of the Group and of Intesa Sanpaolo and the IMI C&IB Division are included in the Group's Risk Appetite Framework. At the same time, the Board of Directors of the Parent Company defines the operating limits in terms of VaR for other Group companies which hold smaller trading books whose risk is marginal.
The Group Financial Risk Committee monitors the risks of all the Group companies on a monthly basis, with particular reference to the absorption of the VaR limits, and recommends any corrective measures. The situation is also regularly examined by the Board of Directors and the Steering Committee in order to propose any changes to the strategies for trading activities to the Management Bodies.

Structure and organisation of the associated risk management function

The Chief Risk Officer is responsible, at Group level, for setting out the system of operating limits, the capital allocation system, and the system of binding policies and procedures. These activities are coordinated by the Group Financial Risk Committee, which discusses the guidelines for the management of market risks.
As part of its functions, the Financial and Market Risks Head Office Department is responsible for the:

- calculation, development and definition of the management risk indicators: Value at Risk, sensitivity and greeks, level measures, stress tests and scenario analyses;
- monitoring of operating limits;
- monitoring of regulatory risk;
- comparison of the P&L with the risk indicators and in particular with the VaR (so-called backtesting);
- establishment of the parameters and rules for the valuation of assets subject to mark-to-market and fair value at Group level, as well as their direct valuation when this cannot be obtained from instruments available to the business units;

The structure of the Financial and Market Risks Head Office Department is based on the following guidelines:

- structuring of the responsibilities according to the main risk-taking centres and to “Risk Type”;
- focusing and specialisation of the resources on the “Risk Owners”;
- compliance with the instructions and proposals of the Supervisory Authorities;
- sustainability of the operating processes, including:
  - the methodological development;
  - the collection, processing and production of data;
  - the maintenance and refinement of the instruments and application models;
  - the general consistency of the data produced.

Scope of application and characteristics of the risk measurement and reporting system

The quantification of trading risks (managerial calculation scope) is based on daily and periodic analysis of the vulnerability of the trading portfolio of Intesa Sanpaolo (including the IMI C&IB Division), which represents the main portion of the Group's market risks, to adverse market movements of the following risk factors:

- interest rates;
- equities and market indexes;
- investment funds;
- foreign exchange rates;
- implied volatilities;
- spreads in credit default swaps (CDSs);
- spreads in bond issues;
- correlation instruments;
- dividend derivatives;
- asset-backed securities (ABSs);
- commodities.

The monitoring scope for the managerial VaR regarding the above risk factors is calculated at the level of the banking group both on the trading book and on the HTCS book (areas consistent with the market risk rules, defined in the internal Market Risk Charter document, for the scope measured at fair value).

For the trading book, the regulatory requirements are established in Regulation (EU) 575/2013 (CRR - Part Three, Title I, Chapter 3, in Articles 102, 103, and 104 respectively). The combined provisions of those articles lay down the set of minimum requirements for the identification of the trading strategies and the measurement and control of the associated risks. This set of requirements consists of the need to:
- define, formalise and monitor the trading strategies, both quantitatively and qualitatively;
- ensure a clear reporting line along which powers, responsibilities and information are correctly transferred;
- ensure an effective system of control and limitation of the risks connected with the holding of the trading book;
- ensure that the positions meet the minimum requirements for recognition in the trading book.

Based on the requirements of the applicable regulations, Intesa Sanpaolo has established a policy (in the document "Rules on the identification and management of the prudential trading book"), which identifies the trading book based on the following elements:
- measurement at fair value through profit or loss of the instruments held for trading;
- the strategies defined;
- the risk-taking centres identified;
- the monitoring, limitation and management of the risks defined in accordance with the internal regulations on market risk.

In particular, the assets classified in the regulatory trading book coincide – apart from some specific exceptions – with the financial assets held for trading (Bank of Italy Circular 262). This association derives from the set of strategies, powers, limits and controls that feed and guarantee the adjacency and consistency between the accounting and prudential portfolios.
A metric of verification of consistency of the inclusion in the trading book has also been established, consisting of the indicator of average vintage, which is subject to a monitoring and escalation process, as defined in the above-mentioned internal policy.
The risk indicators used for the trading risks may be divided into six main types:
- Value at Risk (VaR), which represents the backbone of the whole risk management system due to its characteristics of uniformity, consistency and transparency in relation to both economic capital and the Group Finance operations;
- sensitivity and greeks, which are the essential accompaniment to the VaR indicators due to their ability to capture the sensitivity and the direction of the existing financial trading positions in relation to the various individual risk factors;
- level measures (such as notional and Mark-to-Market), which are a useful aid to the above indicators as an immediately applicable solution;
- stress tests and scenario analyses that enable the completion of the analysis of the overall risk profile, capturing changes in predetermined assumptions relating to the evolution of the underlying risk factors, also simulating anomalous market conditions (opening of the basis risks, worst case);
- Incremental Risk Charge (IRC), an additional measure to VaR (which contributes to the determination of the capital absorption) that enables the correct representation of the specific risk on debt securities and credit derivatives because it also captures event and default risk, in addition to idiosyncratic risk;
- Stressed VaR (from 31 December 2011 it contributes to the determination of capital absorption), which represents the VaR associated with a market stress period, identified on the basis of the indications presented in the Basel document "Revision to the Basel II market risk framework".

The reporting system is continuously updated in order to take into account the evolution of the operations, the organisational structures and the analytical methods and tools available.

Policies for hedging and mitigating risk

In Intesa Sanpaolo, weekly risk meetings are held during which the main risk factors of the portfolios are discussed. The monitoring and discussions take place on the basis of a series of reports by the Financial and Market Risks Head Office Department based on standard quantitative indicators (VaR, greeks, and issuer risk) and stress indicators (what if analysis, stress tests on particular macroeconomic scenarios/risk factors, and marginal VaR).
This set of information represents an effective means for deciding policies for the hedging and mitigation of risk, as it enables the provision of detailed recommendations to the trading rooms on the risk profile of the books, and the identification of any idiosyncratic risks and concentrations, and the suggestion of methods for the hedging of exposures considered to be a potential source of future deteriorations in the value of the portfolios.
During the weekly meetings the Financial and Market Risks Head Office Department ensures the consistency of the positions with the decisions taken in the Group Financial Risk Committee.

Strategies and processes for the ongoing assessment of their effectiveness

At operational level, in addition to the daily reporting (VaR, sensitivities, level measures, control of assigned limits), information is exchanged between the heads of the Business Departments during the abovementioned Risk Meetings called by the heads of the Departments.
More specifically, during the Risk Meetings the risk profile is examined in detail, with the aim of ensuring that operations are conducted in an environment of controlled risk, and the appropriate use of the capital available.

MARKET RISKS/BANKING BOOK

Risk management strategies and processes

Market risk originated by the banking book arises primarily in the Parent Company and in the main other subsidiaries that carry out retail and corporate banking.
Specifically, in managing interest rate risk in the banking book (discussed below), the Intesa Sanpaolo Group seeks to maximise profitability, by adopting operating methods consistent with the general stability of the financial results over the long term. To this end, adopted positions are consistent with the strategic views produced during the regular meetings of the Group Financial Risk Committee, which is also responsible for the assessment of the overall risk profile of the Group and its main operational units.
Foreign exchange risk is the potential loss resulting from changes in the exchange rate that could have a negative impact on the valuation of the assets and liabilities in the financial statements and on earnings and capital ratios.
Two types of Foreign Exchange Risk are identified: *Structural* and *Transaction risk.*

Structural Foreign Exchange Risk is defined as the potential loss resulting from changes in the exchange rate that could have a negative impact on the foreign exchange reserves that are part of the Group's consolidated shareholders' equity, and also includes the foreign exchange risk associated with hybrid capital instruments. The key sources of structural foreign exchange risk are therefore the investments in associates and companies subject to joint control. The Intesa Sanpaolo Group's management of the Structural Foreign Exchange Risk assigns the Parent Company the related management and coordination powers in order to achieve a consistent Group strategy.
This choice, which is consistent with the Parent Company's role as the liaison with the Supervisory Authority, allows the activities to be performed based on the specific responsibilities set out in the prudential supervision regulations, in addition to suitably mitigating and/or managing this type of risk.

Transaction Foreign Exchange Risk is defined as the potential loss resulting from changes in the exchange rate that may have a negative impact both on the valuation of the assets and liabilities in the financial statements and on the earnings from funding and lending transactions in currencies other than the euro. The main sources of this foreign exchange risk consist of: non-euro loans and deposits held by corporate and/or retail customers; conversion into domestic currency of assets, liabilities and income of the international branches; trading of foreign currencies; collection and/or payment of interest, commissions, dividends and administrative expenses in foreign currencies; purchase and sale of securities and financial instruments for the purpose of resale in the short term; etc. Transaction foreign exchange risk also includes the risk related to transactions connected to operations that generate the type of structural foreign exchange risk represented, for example, by dividends, earnings in the process of being generated, and corporate events.

Structure and organisation of the associated risk management function

Within the Financial and Market Risks Head Office Department, the market risks of the banking book and the liquidity risk (discussed in specific sections) are overseen by the Banking Book Financial Risks Function, which is responsible for:

- setting out the criteria and methods for the measurement and management of the financial risks of the banking book (interest rate, foreign exchange, minority equity investments and liquidity);
- proposing the system of operational limits and the guidelines for the management of financial risks for the operational units of the Group involving the operations of the banking book;
- measuring the financial risks of the banking book assumed by the Parent Company and the other Group Companies, both directly, through specific outsourcing contracts, and indirectly by consolidating the information originating from the local control units, and verifying compliance by the Group Companies with the limits set by the Corporate bodies, reporting on their progress to Top Management and the Parent Company's operating structures;
- analysing the overall financial risk profile of the Group's banking book, proposing any corrective measures, within the more general context of the guidelines set out at strategic planning level or by the Corporate Bodies;
- managing the assessment and measurement, for the Parent Company and all the other Group Companies governed by outsourcing contracts, of the effectiveness of the hedging relationships (hedge accounting) required by the IAS/IFRS regulations (for the main Group companies the structures of the Parent Company centralise these activities in order to achieve operational efficiencies and the most effective governance of the process. For the other subsidiaries, it provides direction and guidance);
- supporting the Strategic Asset & Liability Management function in relation to strategic ALM.

Scope of application and characteristics of the risk measurement and reporting system

The following metrics are used to measure the interest rate risk generated by the banking book:

1. with regard to economic value:
   - fair value shift sensitivity (ΔEVE);
   - fair value basis risk (BR);
   - value at risk (VaR).
2. with regard to net interest income:
   - net interest income sensitivity (ΔNII);
   - net interest income basis risk.

The shift sensitivity of the economic value (or fair value shift sensitivity) measures the change in the economic value of the banking book and is it calculated at individual cash flow level for each financial instrument, based on different instantaneous rate shocks and based on historical stress simulations aimed at identifying the worst and best cases. It reflects the changes in the present value of the cash flows of the positions already in the balance sheet for the entire remaining duration until maturity (run-off balance sheet). The cash flows used to determine the present value are developed at the contractual rate, FTP (internal fund transfer price) or risk-free rate (Euribor/Libor) and discounted according to risk-free discount curves. When calculating the present value of loans, the expected loss component is considered; it represents the amount of cash flow that

the bank does not expect to recover on a given exposure and that thus reduces the value of the loan. The present value of the loan adjusted for credit risk is calculated for this purpose by deducting the corresponding level of expected loss from expected cash flows according to the "cash flow adjustment" ("CFA") method.
To control the exposure and monitor the limits, the calculation involves determining the algebraic sum of the equivalent in euro of the shift sensitivities of the positions in the various currencies by applying a parallel shock of +100 bps to the interest rate curves in the various currencies. The calculation for non-parallel shocks for the purposes of controlling the exposure and monitoring the early warning level is performed similarly. The sensitivity of the relevant currencies is then corrected, according to a "currency aggregation" management technique, to take account of the imperfect correlation with the rates of the main currency (the euro).
The fair value basis risk (BR) is a risk measure designed to capture the effect on the floating-rate banking book caused by the imperfect correlation of changes in market indices. The method of estimating fair value basis risk is based on applying shocks, diversified by the curve of reference of the main risk factors. The specific shock level is calculated as a change in the base of each reference rate compared to a designated pivot rate in the same currency.
Value at Risk (VaR) measures the maximum loss that could occur within a given time horizon (holding period) and with a given confidence level. VaR is determined by adopting a 99% confidence level[30] and a holding period of ten days. VaR is estimated using a method based on the historical simulation of the risk factors, represented by the risk-free market interest rate curves, in which the bank's exposure is revalued (full evaluation) on the basis of the curves observed over the last 250 days prior to the evaluation date.
The sensitivity of net interest income quantifies the impact on interest income of shock to the interest rate curve. For managerial monitoring of the limits, the sensitivity of net income is measured over a short-term horizon (12 months), excluding potential effects due to new transactions and future changes in the mix of assets and liabilities, by applying parallel, instantaneous interest rate shocks. The method implicitly assumes that the principal amounts of transactions upon reaching maturity or repricing are reinvested or refinanced through transactions with the same financial characteristics as those that have reached maturity (constant balance sheet assumption), within 12 months of the date of the analysis (date of the end-of-month situation). In addition, for the purposes of prospective simulation of interest income, dynamic analyses are performed, involving a change in the composition and volumes of assets and liabilities, by also applying non-parallel, non-instantaneous shocks, over medium-term time horizons (up to 3 years).
In calculating the above risk measures, Intesa Sanpaolo adopts behavioural models for representing capital items based on their contractual profile, except for categories of instruments whose risk profiles are different from those contractually envisaged. In this respect, therefore, the choice was made to use a behavioural representation to calculate the risk measures. More specifically:

- for mortgages, statistical techniques are used to determine the probability of prepayment, in order to reduce the Group's exposure to interest rate risk (overhedging) and to liquidity risk (overfunding). The method developed estimates prepayment coefficients diversified according to the type of customer, financial characteristics of the transaction, such as the loan rate type (fixed or floating), the original term of the loan and the seasoning, understood as the age of the loan on the date of the prepayment event. The analysis refers to partial repayments, full repayments and refinancing. The prepayment model also examines the reasons that lead customers to make prepayments. With regard to this aspect, the phenomenon may be divided into a structural component ("Core Prepayment") and a scenario component ("Coupon Incentive"), primarily linked to market variations. Prepayment phenomena are monitored monthly and the prepayment coefficients to be applied to the model are re-estimated at least annually, in accordance with the specific model change document;
- for core deposits, a financial representation model is adopted aimed at reflecting the behavioural features of stability of deposits and partial and delayed reaction to market interest rate fluctuations, in order to stabilise the value and net interest income both in absolute terms and in terms of variability over time.

Policies for hedging and mitigating risk

In addition, within the framework of the dynamic simulation of net interest income, an additional behavioural model is adopted to simulate the effects of potential renegotiations of the contractual conditions of medium-/long-term assets. In terms of risks, renegotiations modify the duration of the portfolio of medium-/long-term loans and entail a decline in net interest income due to the revision of the contractual rates/spreads to include conditions more advantageous to customers. Specific models have been estimated to ensure a proper representation of the renegotiations phenomenon in terms of the percentages of mortgage loans renegotiated and their financial characteristics.
Interest rate risk hedging is undertaken with the aim of protecting the banking book from variations in the fair value of loans and deposits due to movements in the interest rate curve or reducing the volatility of future cash flows related to a particular asset/liability. The main types of derivative contracts used are interest rate swaps (IRS), overnight index swaps (OIS), cross-currency swaps (CCS), forward sales of debt securities and options on interest rates concluded with third parties or with other Group companies. The latter, in turn, cover risk in the market so that the hedging transactions meet the criteria to qualify as IAS-compliant for consolidated financial statements.
Hedging activities performed by the Intesa Sanpaolo Group are recorded using various hedge accounting methods. A first method refers to the fair value hedge of specifically identified assets and liabilities (microhedging), mainly consisting of bonds issued or acquired by Group companies and loans to customers. In addition, in order to preserve the economic value of a portion of the HTCS portfolio, by protecting the price of the securities against adverse market movements, the Group negotiates forward sales of the debt securities held in portfolio on a fair value hedging basis. Finally, on the basis of the carved-out version of IAS 39, fair-value hedging is also applied for the macrohedging of the stable portion of demand deposits (core deposits) and on the already fixed portion of variable-rate loans and on a portion of fixed-rate loans. For this last type, an open-portfolio macrohedging model has been adopted according to a bottom-layer approach that, in accordance with the interest rate risk measurement method involving modelling of the prepayment phenomenon, is more closely correlated with risk management activity and asset dynamics. Another hedging method used is the cash flow hedge, which has the purpose

[30] Given the level of confidence chosen, the probability of losses greater than the VaR is 1% (1-level confidence).

of stabilising interest flow on both variable-rate funding, to the extent that the latter finances fixed-rate investments, and on variable-rate investments to cover fixed-rate funding (macro cash flow hedges).
The Financial and Market Risks Head Office Department of the Parent Company is in charge of measuring the effectiveness of interest rate risk hedges for the purpose of hedge accounting, in compliance with the IAS/IFRS.

Qualitative and quantitative disclosure regarding the trading book

The quantification of trading risks (managerial calculation scope) is based on daily and periodic vulnerability of the trading books of Intesa Sanpaolo, which represent the main portion of the Group's market risks, to adverse market movements of the risk factors already listed above.
Some Group subsidiaries hold smaller trading portfolios with a marginal risk (approximately less than 1% of the Group's overall management risk). In particular, the risk factors of the international subsidiaries' trading books are local government bonds, positions in interest rates, and foreign exchange rates relating to linear pay-offs.
The table below shows the items of the consolidated Balance Sheet that are subject to market risks, showing the positions for which managerial VaR is the main risk measurement metrics and those for which the risks are monitored with other metrics. The latter mostly include the sensitivity analysis to the different risk factors (interest rate, credit spread, etc.).

(millions of euro)

	BOOK VALUE (supervisory scope)	MAIN RISK MEASUREMENT METRICS		
		VaR	Other	Risk factors measured using metrics included under Other
Assets subject to market risk	**743,216**	**109,594**	**633,622**	
Financial assets held for trading	53,619	53,437	182	Interest rate risk, credit spread, equity
Financial assets designated at fair value	3	1	2	Interest rate risk, credit spread
Other financial assets mandatorily measured at fair value	5,441	2,286	3,155	Interest rate risk, credit spread
Financial assets measured at fair value through other comprehensive income (ifrs 7 par. 8 lett. h))	57,865	53,807	4,058	Interest rate risk, equity
Due from banks	110,095	-	110,095	Interest rate risk
Loans to customers	505,956	-	505,956	Interest rate risk
Hedging derivatives	1,134	63	1,071	Interest rate risk
Investments in associates and companies subject to joint control	9,103	-	9,103	Equity risk
Liabilities subject to market risk	**702,391**	**62,318**	**640,073**	
Due to banks	115,690	-	115,690	Interest rate risk
Due to customers	423,674	-	423,674	Interest rate risk
Securities issued	93,754	-	93,754	Interest rate risk
Financial liabilities held for trading	59,153	59,116	37	Interest rate risk
Financial liabilities designated at fair value (ifrs 7 par. 8 lett. e))	3,032	3,032	-	-
Hedging derivatives	7,088	170	6,918	Interest rate risk

Internal model validation

For some of the risk factors indicated above, the Supervisory Authority has validated the internal models for the reporting of the capital requirement for the market risk of the legal entity Intesa Sanpaolo.
With effect from 20 July 2020, the scope of the internal model includes the prudential trading book previously managed by Banca IMI[31].
With regard to market risk, the risk profiles validated are: (i) generic/specific on debt securities and on equities; (ii) position risk on quotas of UCI underlying CPPI (Constant Proportion Portfolio Insurance) products and the hedge fund portfolios using a look through approach; (iii) position risk on dividend derivatives and (iv) commodity risk.
The VaR and the Stressed VaR used to determine the capital requirement use the same calculation engine and the same pricing libraries for the full evaluation of the managerial measures. With regard to the latter, however, there is no decay factor in the application of the scenarios.
The observation window for the VaR and SVaR is 1 year and the figure is updated on a daily basis.
The daily measures are turned into ten-day measures through the square root of time formula to obtain data that can be used to determine the requirement.

See the paragraph below, for more details on the Incremental Risk Charge.

Incremental Risk Charge (IRC)

The Incremental Risk Charge (IRC) is the maximum potential loss in the trading book resulting from an upgrade/downgrade or bankruptcy of the issuers, over a 1-year period, with a 99.9% confidence level. This measure is additional to VaR and enables the correct representation of the specific risk on debt securities and credit derivatives because, in addition to idiosyncratic risk, it also captures event and default risk.
This measure applies to all financial products that are sensitive to credit spreads included in the trading books except for the securitisations.
The simulation is based on a Modified Merton Model. The probabilities of transition and default are those observed through the historical matrices of the main rating agencies. The asset correlation is inferred from the equity correlation of the issuers. The model is based on the assumption of a constant position with a holding period of one year.
A regular stress program is applied to the model's main parameters (correlation, and transition, default and credit spread matrices).

Market risk under the standardised approach (EU MR1 EBA GL 2016/11)

(millions of euro)

		RWAs	Capital requirements
	Outright products		
1	Interest rate risk (general and specific)	816	65
2	Equity risk (general and specific)	115	9
3	Foreign exchange risk	45	4
4	Commodity risk	15	1
	Options		
5	Simplified approach	-	-
6	Delta-plus method	4	-
7	Scenario approach	-	-
8	**Securitisation (specific risk)**	**1,296**	**104**
9	**Total**	**2,291**	**183**

The figure for interest rate risk has increased compared to the previous half-year, due to the inclusion of UBI's trading book.
Foreign exchange risk was down with respect to first half-year. This improvement was mainly due to the diversification effects resulting from the integration of Banca IMI.
The RWAs of the securitisations, calculated using the standardised approach (CRR 2017) was 1,296 million euro, up on 1,204 million euro at the end of June 2020. The capital requirement for the trading book securitisations as at 31 December 2020 amounted to around 104 million euro, compared to 96 million euro at the end of June. Compared to the end of June 2020, the total exposure of the trading book decreased slightly (EAD 863 million euro compared to 975 million euro) with the reductions concentrated in the investment grade senior tranches.

[31] The capital requirement under the internal model does not include UBI's trading book.

Market risk under the IMA[32] (EU MR2-A EBA GL 2016/11)

(millions of euro)

			RWAs	Capital requirements
1		**VaR (higher of values a and b)**	**5,932**	**475**
	a)	Previous day's VaR (Article 365(1) of the CRR (VaRt-1))		88
	b)	Average of the daily VaR (Article 365(1)) of the CRR on each of the preceding 60 business days (VaRavg) x multiplication factor (mc) in accordance with Article 366 of the CRR		475
2		**SVaR (higher of values a and b)**	**7,360**	**589**
	a)	Latest SVaR (Article 365(2) of the CRR (SVaRt-1))		138
	b)	Average of the SVaR (Article 365(2) of the CRR) during the preceding 60 business days (SVaRavg) x multiplication factor (ms) (Article 366 of the CRR)		589
3		**IRC (higher of values a and b)**	**3,938**	**315**
	a)	Most recent IRC value (incremental default and migration risks calculated in accordance with Article 370 and Article 371 of the CRR)		210
	b)	Average of the IRC number over the preceding 12 weeks		315
4		**Comprehensive risk measure (higher of values a, b and c)**	**-**	**-**
	a)	Most recent risk number for the correlation trading portfolio (Article 377 of the CRR)		-
	b)	Average of the risk number for the correlation trading portfolio over the preceding 12 weeks		-
	c)	8% of the own funds requirement in the standardised approach on the most recent risk number for the correlation trading portfolio (Article 338(4) of the CRR)		-
5		**Other**	**-**	**-**
6		**TOTAL**	**17,230**	**1,379**

The volatility of the credit spreads, the movements in the exposure to sovereign debt and the positioning on credit indices (mainly protection purchases), have driven the most recent movements in the market RWAs. The slight increase compared to September was attributable to portfolio dynamics in the first part of the quarter. The final RWA figure is in line with the end of June.

Stressed VaR

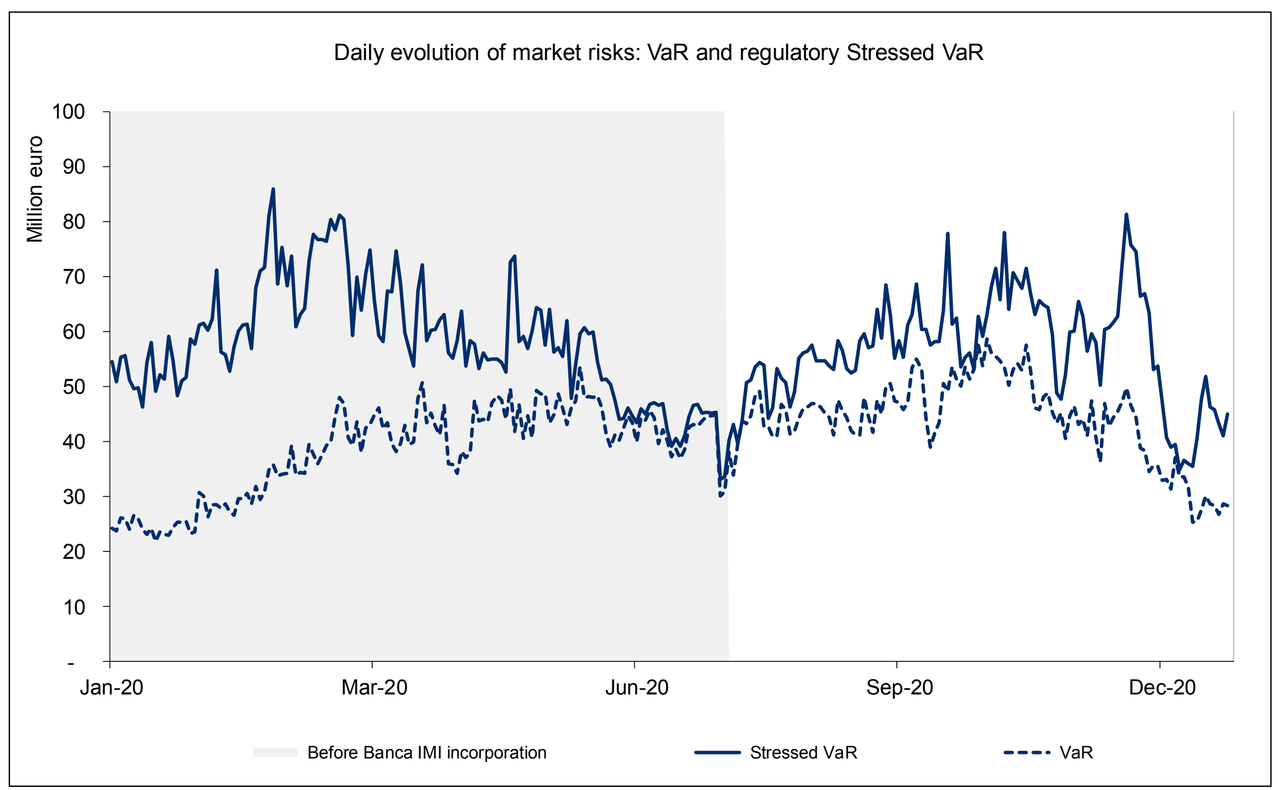
From 31 December 2011, the capital requirement for market risk includes stressed VaR. The requirement derives from the determination of the VaR associated with a market stress period. This period was identified considering the following guidelines, on the basis of the indications presented in the Basel document "*Revision to the Basel 2 market risk framework*":

- the period must represent a stress scenario for the portfolio;
- the period must have a significant impact on the main risk factors;
- the period must allow real time series to be used for all portfolio risk factors.

While using the historical simulation approach for VaR calculation, the latter point is a discriminating condition in the selection of the holding period. Actually, in order to ensure that the scenario adopted is effectively consistent and to avoid the use of driver or comparable factors, the historical period must ensure the effective availability of market data.
As at the date of preparation of this document, the period for the measurement of Stressed VaR was set as from 11 October 2011 to 28 September 2012.

The graph below shows the trend of the measures.

[32] The VaR figure in the table includes the Risk Not In Model requirement.



The table below shows the breakdown of the capital requirements for current and Stressed VaR measures.

IMA values for trading portfolios (EU MR3 EBA GL 2016/11)

(millions of euro)

VaR (10 day 99%)		
1	Maximum value	185
2	Average value	133
3	Minimum value	80
4	Period end	88
SVaR (10 day 99%)		
5	Maximum value	257
6	Average value	181
7	Minimum value	110
8	Period end	138
IRC (99.9%)		
9	Maximum value	537
10	Average value	315
11	Minimum value	197
12	Period end	210
Comprehensive risk capital charge (99.9%)		
13	Maximum value	-
14	Average value	-
15	Minimum value	-
16	Period end	-

The level of the capital requirements reflected the market volatility, the movements in the exposure to sovereign debt and the positioning on credit indices.

Managerial VaR
The analysis of market risk profiles relative to the trading book (managerial scope) uses various quantitative indicators and VaR is the most important. Since VaR is a synthetic indicator which does not fully identify all types of potential loss, risk management has been enriched with other measures, in particular simulation measures for the quantification of risks from illiquid parameters (dividends, correlation, ABS).
VaR estimates are calculated daily based on simulations of weighted historical time-series, a 99% confidence level and 1-day holding period.
In line with what has been approved by the BoD, with regard to the VaR limits for legal entities, the managerial VaR of the Trading component includes the HTCS portfolio of the IMI C&IB Division.
With particular regard to the legal entity UBI Banca, following its consolidation within the Group, tactical solutions have been implemented with regard to the managerial market risk measures in order to report those risks in Intesa Sanpaolo's portfolio. Specifically, the trading book is reported within the IMI C&IB Division, while the HTCS portfolio has been divided between the Group Treasury and Finance Department (liquidity portfolio) and the IMI C&IB Division (investment portfolio).

Sensitivity and greeks
Sensitivity measures make risk profiling more accurate, especially in the presence of option components. These measure the risk attributable to a change in the value of a financial position to predefined changes in valuation parameters including a one basis point increase in interest rates.

Level measures
Level measures are risk indicators which are based on the assumption of a direct relationship between the size of a financial position and the risk profile. These are used to monitor issuer/sector/country risk exposures for concentration analysis, through the identification of notional value, market value or conversion of the position in one or more benchmark instruments (so-called equivalent position).

Stress tests
Stress tests measure the value changes of instruments or portfolios due to changes in risk factors of unexpected intensity and correlation, or extreme events, as well as changes representative of expectations of the future evolution of market variables. Stress tests for management purposes are applied periodically to market risk exposures, typically adopting scenarios based on historical trends recorded by risk factors, for the purpose of identifying past worst-case scenarios, or defining variation grids of risk factors to highlight the direction and non-linearity of trading strategies.

Daily managerial VaR evolution
During the fourth quarter of 2020, the managerial market risks generated by the Group decreased compared to the average values of the third quarter of 2020. The decrease is from 277.6 million euro (third quarter average) to 200.2 million euro. The trend in that indicator was determined mainly by the IMI C&IB Division, which recorded a decrease in total VaR from 271.6 million euro to 201.0 million euro.
That effect is mainly attributable to the rolling scenario effects given the decreased volatility of the market as well as the reduction of HTCS securities of the IMI C&IB Division.
The Trading Book component recorded a total reduction in risk from 73.3 million euro to 59.0 million euro. It is noted that the contribution as at 31 December 2020 of the trading book of the legal entity UBI Banca, merged into the IMI C&IB Division, came to 0.795 million euro.

Daily managerial VaR of the trading book

(millions of euro)

	average 4th quarter	minimum 4th quarter	maximum 4th quarter	average 3rd quarter	average 2nd quarter	average 1st quarter
Group Treasury and Finance Department	3.4	2.3	4.5	9.9	37.9	15.0
IMI C&IB Division	201.0	132.8	280.4	271.6	325.6	159.8
of which IMI C&IB Division Trading Book	*52.5*	*35.5*	*72.1*	*59.6*	*47.7*	*26.1*
Total	**200.2**	**131.0**	**278.5**	**277.6**	**363.5**	**174.8**
of which GroupTrading Book (a)	***59.0***	***40.9***	***79.8***	***73.3***	***85.6***	***41.1***

Each line in the table sets out past estimates of daily VaR calculated on the historical quarterly time-series of the Group Treasury and Finance Department, the IMI C&IB Division and the Intesa Sanpaolo Group (including other subsidiaries) respectively; minimum and maximum values for the overall perimeter are estimated using aggregate historical time-series and therefore do not correspond to the sum of the individual values in the column.

(a) The Group Trading Book figure includes the managerial VaR of the Group Treasury and Finance Department, the IMI C&IB Division (Trading Book perimeter) and the other subsidiaries.

For the whole of 2020, the Group's average managerial VaR was 254.8 million euro, up compared to 151.5 million euro in 2019. The performance of this indicator – mainly determined by the IMI C&IB Division – derives from an increase in the risk measures, mainly due to the volatility in the markets as a result of the COVID-19 pandemic.

Daily managerial VaR of the trading book - Comparison 2020 – 2019

(millions of euro)

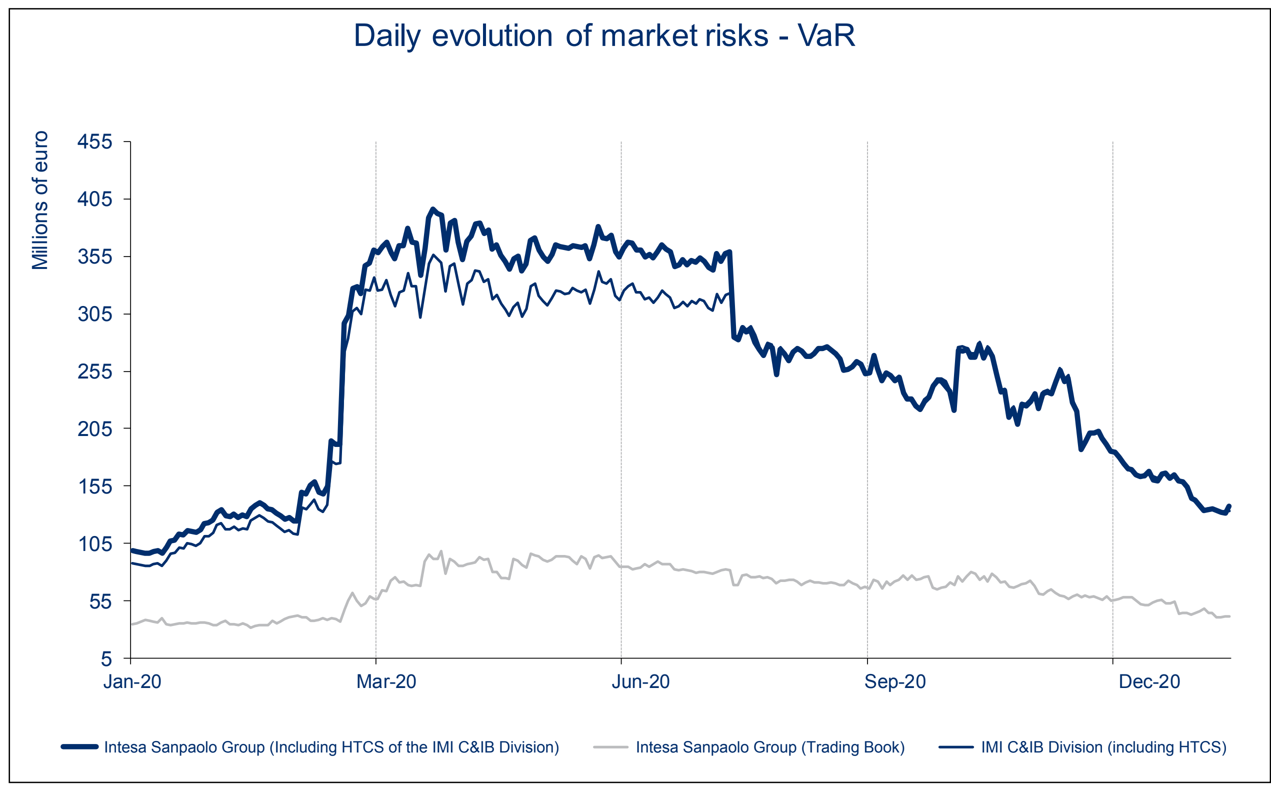
	2020				2019		
	average	**minimum**	**maximum**	**last day**	**average**	**minimum**	**maximum**
Group Treasury and Finance Department	16.5	2.3	42.6	2.7	15.4	10.7	19.0
IMI C&IB Division	239.9	85.0	356.3	133.2	136.0	84.1	192.3
of which IMI C&IB Division Trading Book	*46.6*	*20.7*	*72.1*	*36.4*	*29.5*	*23.1*	*38.4*
Total	**254.8**	**96.1**	**395.9**	**137.6**	**151.5**	**95.1**	**208.8**
of which GroupTrading Book (a)	***65.3***	***31.4***	***98.6***	***41.6***	***45.0***	***35.0***	***57.1***

Each line in the table sets out past estimates of daily VaR calculated on the historical time-series of the year 2020 respectively of the Group Treasury and Finance Department, the IMI C&IB Division and the Intesa Sanpaolo Group (including other subsidiaries); minimum and maximum values for the overall perimeter are estimated using aggregate historical time-series and therefore do not correspond to the sum of the individual values in the column.

(a) The Group Trading Book figure includes the managerial VaR of the Group Treasury and Finance Department, the IMI C&IB Division (Trading Book perimeter) and the other subsidiaries.

For the Intesa Sanpaolo Group, up to June 2020, the VaR trend in 2020 was mainly explained by the volatility on the financial markets due to the health emergency generated by the COVID-19 pandemic (the main effects were recorded on government securities in the HTCS portfolio of the IMI C&IB Division). Instead, since the third quarter, the measures have decreased due to the following effects:

- the merger by incorporation of Banca IMI into the Parent Company, which resulted in diversification (in July) of the Group managerial VaR (including the HTCS book);
- "rolling scenario" effect and reduction of the HTCS portfolio of the IMI C&IB Division in the following months. With reference to the rolling scenario effects, given the lower volatility of the markets, the most volatile scenarios were no longer part of the managerial VaR distributions.



The breakdown of the Group's risk profile in the fourth quarter of 2020 with regard to the different risk factors shows the prevalence of credit spread risk, which accounted for 76% of the Group's total managerial VaR (of which 65% just for the Trading Book component). Instead, the risk taking center breakdown show the prevalence of interest rate risk and exchange rate risk for the Group Treasury and Finance Head Office Department (48% and 42%, respectively) and the credit spread risk factor for the IMI C&IB Division (77%).

Contribution of risk factors to total managerial VaR

4th quarter 2020	Shares	Hedge fund	Rates	Credit spread	Foreign exchange rates	Other parameters	Commodities
Group Treasury and Finance Department	0%	0%	48%	10%	42%	0%	0%
IMI C&IB Division	3%	2%	16%	77%	0%	1%	1%
Total	**3%**	**2%**	**16%**	**76%**	**1%**	**1%**	**1%**

Each line in the table sets out the contribution of risk factors considering 100% the overall capital at risk, calculated as the average of daily estimates in the fourth quarter of 2020, broken down between the Group Treasury and Finance Department and IMI C&IB Division and indicating the distribution of the Group's overall capital at risk.

Risk control with regard to the activity of the Intesa Sanpaolo Group also uses scenario analyses and stress tests. The impact of selected scenarios relating to the evolution of stock prices, interest rates, credit spreads, foreign exchange rates and commodity prices at the end of December is summarised in the following table:

(millions of euro)

	EQUITY		INTEREST RATES		CREDIT SPREADS		FOREIGN EXCHANGE RATES		COMMODITY	
	Crash	Bullish	+40bp	lower rate	-25bp	+25bp	-5%	+5%	Crash	Bullish
Total	43	-8	-247	134	690	-639	11	-6	2	-
of which HTCS of the IMI C&IB Division	*-*	*-*	*-157*	*99*	*614*	*-586*	*-*	*-*	*-*	*-*

More specifically:
- for stock market positions, there would be a loss of 8 million euro in the event of a sharp rise in equity prices and a decrease in volatility;
- for positions in interest rates, there would be a loss of 247 million euro in the event of an increase in rate curves of 40 bps (of which -157 million euro attributable to the HTCS portfolio of the IMI C&IB Division);
- for positions in credit spreads, a widening of credit spreads of 25 bps would entail a loss of 639 million euro (of which -586 million euro attributable to the HTCS portfolio of the IMI C&IB Division);
- for positions in exchange rates, there would be a loss of 6 million euro in the event of appreciation in the Euro against the other currencies;
- lastly, for positions in commodities, there would be gains both in the event of an increase (marginally positive values) and a decrease in commodity prices.

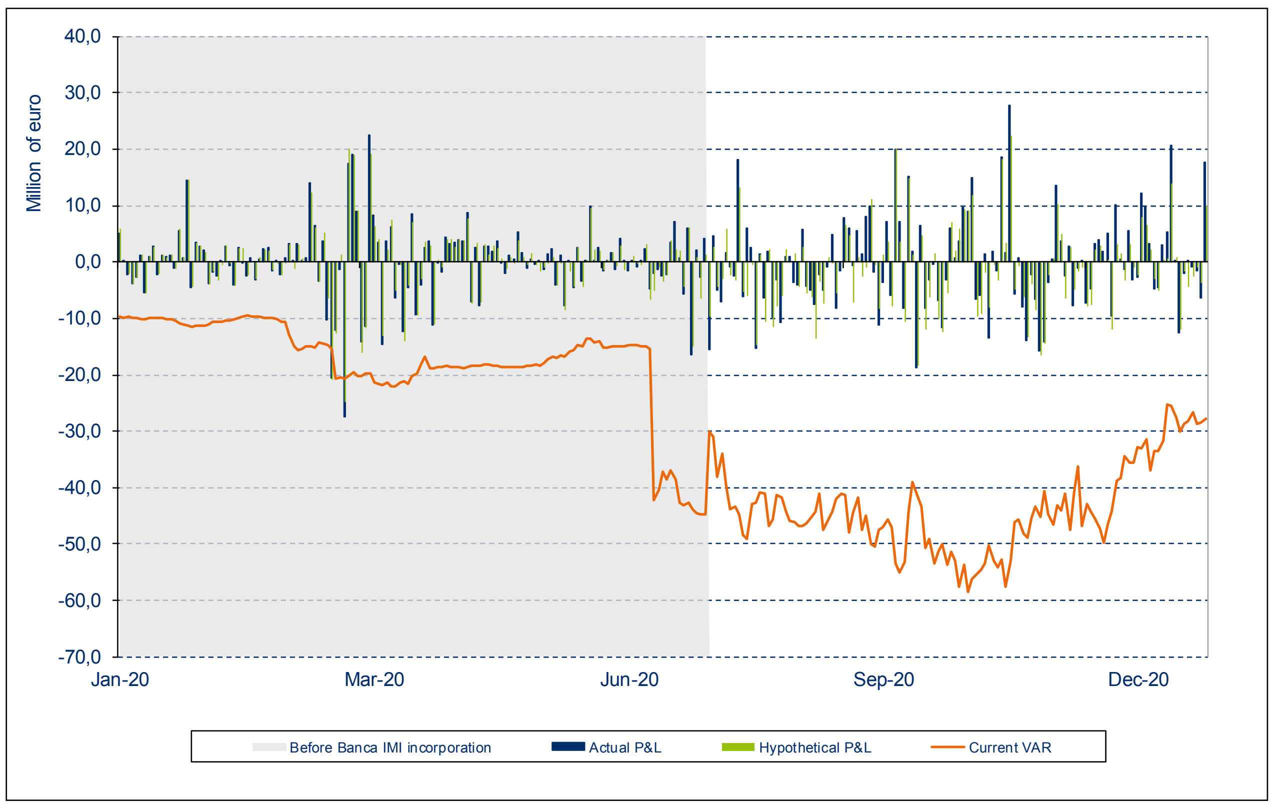
Backtesting

The soundness of the VaR calculation methods must be monitored daily via backtesting which, for the regulatory backtesting, compares:
- the daily estimates of value at risk;
- the daily profits/losses based on backtesting which are determined using actual daily profits and losses achieved by individual desks, net of components which are not considered in backtesting: these include, for example, fees and financial costs of managing the positions that are regularly reported for management purposes.

Backtesting allows verification of the model’s capability of correctly seizing, from a statistical viewpoint, the variability in the daily valuation of trading positions, covering an observation period of one year (approximately 250 estimates). Any critical situations relative to the adequacy of the internal model are represented by situations in which daily profits/losses based on backtesting highlight more than four occasions, in the year of observation, in which the daily loss is higher than the value at risk estimate. Current regulations require that backtesting is performed by taking into consideration both the actual and hypothetical P&L series.
At 31 December 2020, the Intesa Sanpaolo Group did not benefit from the exclusion of overshootings from the calculation of the backtesting addend in view of the COVID-19 pandemic (Reg. 2020/873, Art. 500c). The exceptions set out below are the only cases recorded by Intesa Sanpaolo over the last twelve months.
The increase in the Parent Company’s VaR shown in the graph below starting in July is attributable to the effects of the integration of the trading book of Banca IMI.

Comparison of VaR estimates with gains/losses (EU MR4 EBA GL 2016/11)

During the fourth quarter[33], no backtesting exceptions were recorded. The two overshootings shown in the graph for the period January 2020 – December 2020 refer to the legal entity Intesa Sanpaolo prior to the integration of Banca IMI. In the same period, Banca IMI recorded three exceptions. The most recent breaches were linked to the turmoil on the markets as a result of the COVID-19 crisis.



Issuer risk

Issuer risk in the trading portfolio is analysed through level measures, i.e. in terms of mark to market, with exposures aggregated by rating class and sector, and is monitored through a system of operating limits based on both sector/rating classes and concentration indexes.

Breakdown of exposures by type of issuer

	TOTAL	OF WHICH					
		Corporate	Financial	Emerging	Covered	Government	Securitis.
Group Treasury and Finance Department	9%	1%	0%	0%	4%	95%	0%
IMI C&IB Division	91%	14%	38%	7%	2%	23%	16%
Total	**100%**	**13%**	**35%**	**6%**	**2%**	**29%**	**15%**

The table sets out in the Total column the contribution of the Group Treasury and Finance Department and the IMI C&IB Division to overall issuer risk exposures, breaking down the exposure by type of issuer. The scope corresponds to the trading portfolio with an issuer ceiling (excluding Italian Government bonds, AAA and own bonds) and including CDS (absolute value).

The breakdown of the portfolio subject to issuer risk shows the prevalence of securities in the government segment for the Group Treasury and Finance Department and in the financial and government segments for the IMI C&IB Division.

[33] The estimates do not include UBI's trading book.

Operating limits

The structure of limits reflects the risk level deemed to be acceptable with reference to single business areas, consistent with operating and strategic guidelines defined by top management. The attribution and control of limits at the various hierarchical levels implies the assignment of delegated powers to the heads of business areas, aimed at achieving the best trade-off between a controlled risk environment and the need for operating flexibility. The functioning of the system of limits and delegated powers is underpinned by the basic concepts of hierarchy and interaction.
The application of such principles led to the definition of a structure of limits in which the distinction between first level and second level limits is particularly important:

- first level limits (VaR): at the level of individual legal entities, these are approved by the Board of Directors, concurrently with approval of the RAF. Limit absorption trends and the relative congruity analysis are periodically assessed by the Group Financial Risk Committee. Following approval, these limits are then allocated to the desks of the individual legal entities, considering the proposals by the business units;
- second level limits (sensitivity and greeks): they have the objective of controlling operations of the various desks on the basis of differentiated measures based on the specific characteristics of traded instruments and operating strategies, such as sensitivity, greeks and equivalent exposures;
- other significant limits: they have the objective of monitoring particular transactions (e.g. ceiling for transactions with issuer risk, Incremental Risk Charge limit).

Some of these limits may be covered by the RAF rules.
As at 31 December 2020, the use of the VaR limit for the HTCS component (excluding the IMI C&IB Division) amounted to 28%.
The use of the IRC limits amounted to 35.3% at year-end for Intesa Sanpaolo (limit of 600 million euro).

Incremental Risk Charge – Summary of 2020 performance

(millions of euro)

	average 4th quarter	4th quarter last one	minimum 4th quarter	maximum 4th quarter	average 3rd quarter	average 2nd quarter	average 1st quarter
Intesa Sanpaolo	315.0	210.2	196.6	537.1	186.0	133.7	106.0
Banca IMI						147.5	147.2
Total	**315.0**	**210.2**	**196.6**	**537.1**	**186.0**	**281.2**	**253.2**

Impacts from the COVID-19 pandemic

As regards the impacts generated by the COVID-19 pandemic on the trends in market risks, the exceptional circumstances that characterised the financial markets in the first and second quarter of 2020 resulted in the revision of the RAF framework in May, with regard to both the Trading measures and the HTCS component.
In particular, in light of the changed context:

- from a managerial perspective, the Group continued the reduction of its securities portfolio in the fourth quarter. The fourth quarter saw a reduction in managerial VaR compared to the previous quarter, from 277.6 million euro to 200.2 million euro, mainly due to rolling scenario effects and a reduction in the HTCS portfolio of the IMI C&IB Division;
- as for Market Risk capital requirement, despite the increase in volatility, the trading book recorded only a slight increase compared to the previous quarter. Despite an inevitable increase in the cyclical measure (VaR), the hedging strategies have limited the exposure to the risk factors most affected by the pandemic (sovereign and financial spreads). In detail, the Intesa Sanpaolo Group's market risk weighted assets at 31 December 2020, calculated according to the internal model, amounted to 17 billion euro. This figure was in line with December 2019 despite the increased volatility that affected the financial markets during 2020.

FAIR VALUE, INDEPENDENT PRICE VERIFICATION AND PRUDENT VALUE OF FINANCIAL INSTRUMENTS

The framework of financial measurement at fair value is based on three pillars: fair value measurement according to the IFRS, independent price verification (IPV) and prudent value measurement. The latter are established by the CRR - Capital Requirement Regulation. The paragraphs below describe the methods applied by the Intesa Sanpaolo Group to implement and use those elements.

General fair value principles

The Intesa Sanpaolo Group governs and defines the fair value measurement of financial instruments through the Group Guidelines and Rules for Valuation of Financial Instruments at Fair Value, prepared by the Financial and Market Risks Head Office Department and applied by the Parent Company and all consolidated subsidiaries, including the Insurance Companies.

The “Guidelines for Valuation of Financial Instruments at Fair Value”, once a favourable opinion has been given by the Group Financial Risk Committee, are revised and approved at least on an annual basis by the Board of Directors, with the support of the Risks Committee. The “Rules for Valuation of Financial Instruments at Fair Value” are reviewed and approved at least on an annual basis by the Group Financial Risk Committee, which is specifically delegated to do so by the Management Bodies, and which also reviews material changes and updates proposed by the Financial and Market Risks Head Office Department.

The “Rules for the Measurement of Unlisted Equity Investments”, drawn up by the Group M&A and Equity Investments Head Office Department, govern the fair value measurement of unlisted equities and financial instruments with unlisted equities as their underlying.

IFRS 13, which harmonises the measurement rules and the related disclosure, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (i.e. not as part of the compulsory liquidation or a below-cost sale) as at the measurement date. Fair value is a market measurement criterion, not specifically referring to a single bank. Underlying the definition of fair value is the assumption that the Bank is carrying out normal operations, without any intention of liquidating its assets, significantly reducing the level of operations or carrying out transactions at unfavourable conditions.
The bank measures the fair value of an asset or liability by adopting the assumptions that would be used by market participants when pricing an asset or liability, presuming that they act with a view to satisfying their own economic interest in the best way possible. Measurement at fair value presumes that the asset is sold or the liability transferred:
a. in the principal active market for the asset or liability;
b. in the absence of a major market, in the most advantageous active market for the asset or liability.
The bank is not required to conduct an exhaustive study of all possible markets to identify the major market or, in the absence of the major market, the most advantageous market, but must take into account all the reasonably available information. If there is no evidence to the contrary, the market that the entity normally operates in to sell the asset or transfer the liability is assumed to be the major market or the most advantageous market, if there is no major market. The Intesa Sanpaolo Group considers the principal market of a financial asset or liability to be the market in which the Intesa Sanpaolo Group generally operates.

In accordance with IFRS 13, the Group considers an active market to be a market where transactions in an asset or liability occur with sufficient frequency and volume to provide useful information for determining price on an ongoing basis. More specifically, a financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

In specific cases, governed by the Guidelines and Rules for Valuation of Financial Instruments at Fair Value, and despite being quoted on regulated markets, relevant research is carried out to verify the significance of the official market values. In the event of a significant reduction in the volume or level of operations compared to normal operations for the asset or liability (or for similar assets or liabilities) highlighted by a number of indicators (number of transactions, limited significance of market prices, significant increase in implicit premiums for liquidity risk, widening or increase of the bid-ask spread, reduction or total lack of market for new issuances, limited publicly-available information), analyses of the transactions or of the quoted prices must be carried out. A reduction in the volume or the level of activity alone may not indicate that the price of a transaction or the quoted price does not represent fair value or that the transaction in that market is not ordinary. If an entity determines that a transaction price or quoted price does not represent fair value (e.g., non-ordinary transactions) an adjustment to the transaction prices or listed prices is required if the entity uses those prices as the basis for fair value measurement and that adjustment may be significant with respect to the fair value as a whole.

General independent price verification principles

The Intesa Sanpaolo Group governs and defines the independent price verification process through the Group Guidelines and Rules on Independent Price Verification, documents that are coordinated by the Financial and Market Risks Head Office Department and applied by the Parent Company and all consolidated subsidiaries of the Banking Group.
The “Guidelines on Independent Price Verification”, once a favourable opinion has been given by the Group Financial Risk Committee, are revised and approved at least on an annual basis by the Board of Directors, with the support of the Risks Committee. The level I and II “Rules on Independent Price Verification” are revised and approved at least on an annual basis by the Group Financial Risk Committee, which is specifically delegated to do so by the Management Bodies, and which also reviews material changes and updates proposed by the Financial and Market Risks Head Office Department.

According to the provisions of Regulation (EU) 575/2013 (Capital Requirement Regulation – CRR), Article 4, par. 1.70 and Article 105, par. 8, the Intesa Sanpaolo Group governs the Independent Price Verification (IPV) process, which consists of the regular verification of the accuracy and independence of market prices or the data input in pricing models, carried out by an organisational unit independent from the business functions, at a frequency commensurate with the trading carried out and the nature of the market.
The Intesa Sanpaolo Group has set up an IPV process with 3 levels of control in line with the provisions of Bank of Italy Circular 285/2013 (Supervisory regulations for banks), incorporated into the Integrated Internal Control System, which requires the risk management processes to be incorporated in the processes and methods for valuing the company activities, also for accounting purposes.
Within the IPV, the level I, II and III control functions have the following main responsibilities:

- the level I control function participates in the definition of the related methodological framework and carries out the level I implementations and controls, reporting the results to the business function and the level II control functions;
- the level II control function defines the methodological and control framework, ensures alignment with current regulations and consistency between the IPV controls, accounting valuations and additional valuation adjustments (AVA) (carried out, respectively, on the basis of the Guidelines and Rules for Valuation of Financial Instruments at Fair Value and the Guidelines and Rules for Prudent Valuation of Financial Instruments at Fair Value) and supervises the level I controls and performs the level II controls;
- the level III control function carries out internal audit controls to identify breaches of procedures and regulations, as well as to periodically assess the completeness, adequacy, functionality (in terms of efficiency and effectiveness) and reliability of the organisational structure of the other components of the internal control system and the IT system at Group level, at scheduled deadlines in relation to the nature and intensity of the risks.

The level I and II IPV controls are qualitative and quantitative controls and are distinguished according to the type of instruments subject to control. They are applied consistently to both the input data underlying the valuations and the valuations themselves, and ensure consistency between the management valuations and the accounting valuations carried out in the various systems. They are characterised by completeness and suitability of application, absence of overlaps, sequentiality and complementarity in execution. The IPV control instruments use, as far as possible, specific applications or IT procedures, which enable extensive data analysis on a daily basis. In particular:

- the level I controls are aimed at ensuring the validation of the market data entered into the systems and are based on an in-depth analysis of the data obtained from external providers. If the level I controls detect that certain thresholds have been exceeded for the data contained in the systems, or the data is not considered correct by the level I control functions, a comparison process (challenge) is activated with the involvement of the business function and the level II control functions, in line with the degree of complexity of the report.
- Level II controls are characterized by sequentiality and complementarity in execution with the level I controls and are designed to ensure alignment between management and accounting valuations, based on an in-depth analysis of consensus or counterparty data and, where these are not available, through the application of pricing models associated with the respective instruments.

The results of the IPV process are analysed, assessed and coordinated by the Financial Measurements Working Group, a technical body set up specifically for this purpose, with the aim of facilitating integration and comparison between the business functions and the control functions.

The fair value of financial instruments

The presence of quoted prices in an active market represents the best evidence of fair value and these prices are therefore the quoted prices to be used on a priority basis for the measurement of financial assets and liabilities. If there is no active market, the fair value is determined using valuation techniques aimed, ultimately, at establishing the price the product would have had, at the measurement date, in an arm's length exchange motivated by normal business considerations.
The choice of the above measurement methods is not optional, because they must be applied in hierarchical order: the availability of a price stated in an active market prevents the use of one of the other measurement approaches.

Inputs of the valuation techniques

The inputs are defined as the assumptions that market operators would have used to determine the price of the asset or the liability, including assumptions regarding risk, such as, for example, the risk relating to a particular valuation technique used to measure fair value or the risk relating to the inputs of the valuation technique. The inputs may be observable or unobservable.
Observable inputs are those produced using market data, such as publicly available information on operations or actual events, which reflect the assumptions that market operators would use in determining the price of the asset or the liability.
Unobservable inputs are those for which no market information is available and that are produced using the best available information regarding the assumptions that market operators would use to determine the price of the asset or the liability.

Fair value hierarchy

IFRS 13 establishes a fair value hierarchy in which inputs to fair value measurement techniques are divided into three levels. That hierarchy assigns top priority to (unadjusted) quoted prices on active markets for identical assets or liabilities (level 1 data) and the lowest priority to unobservable inputs (level 3 data). In particular:

- Fair value level 1 applies when an instrument is measured directly on the basis of (unadjusted) quoted prices on active markets for identical assets or liabilities to which the entity has access on the measurement date.
- Fair value level 2 applies when a price has not been found on an active market and the instrument is measured according to valuation techniques, on the basis of observable market parameters, or of the use of parameters that are not observable but are supported and confirmed by market evidence, such as prices, spreads or other inputs.
- Fair value level 3 applies when fair value is measured using various inputs, not all of which are directly drawn from observable market parameters, and which thus entail estimates and assumptions by the valuator.

If various inputs are used to measure the fair value of an asset or liability, classification in the hierarchy is determined on the basis of the lowest-level input used in measurement. When assigning a level in the fair value hierarchy, priority is given to the inputs of the valuation techniques rather than the valuation techniques themselves.

The attachment “Fair Value Hierarchy Rules” to the "Rules for Valuation of Financial Instruments at Fair Value" defines, with regard to the respective financial instrument valuation models/inputs, the basic rules that market inputs must comply with in order to be classified as Level 2, and the significance thresholds which, when overrun, result in the assignment of Level 3.

For level 1 financial instruments, the current bid price is used for financial assets and the current ask price for financial liabilities, struck on the principal active market at the end of the reference period.

For financial instruments with a scarcely significant bid-ask spread or for financial assets and liabilities with offsetting market risks, mid-market prices are used (again referred to the last day of the reference period) instead of the bid or ask price.

The following are considered as level 1 financial instruments: contributed bonds (i.e. bonds for which the Composite Bloomberg Bond Trader is available from the Information Provider Bloomberg, or, alternatively, a price on the EuroMTS circuit, or at least three prices available from the Information Provider Bloomberg), contributed equities (i.e., quoted on the official market of reference), contributed UCITS (covered by EU directives), spot exchange rates, derivatives for which prices are available on an active market (for example, exchange traded futures and options) and hedge funds whose Net Asset Value (NAV) is available, according to the frequency established in the subscription contract, and in which assets classified as level 1 predominate among the assets invested in by the fund, as a percentage of the NAV, provided the level 3 instruments do not exceed a set threshold.

Conversely, all other financial instruments that do not belong to the above-described categories or that do not have the contribution level defined by the Guidelines and Rules for Valuation of Financial Instruments at Fair Value are not considered level 1 instruments.

When no listing on an active market exists or the market is not functioning regularly, that is when the market does not have a sufficient and continuous number of trades, and bid-ask spreads and volatility that are not sufficiently contained, the fair value of the financial instruments is mainly determined through the use of valuation techniques whose objective is the establishment of the price at which, in an orderly transaction, the asset is sold or the liability transferred between market participants, as at the measurement date, under current market conditions.

In the case of instruments classified as level 2, the valuation is based on prices or credit spreads presumed from the official listing of instruments which are similar in terms of risk factors, using a given calculation methodology (valuation model). The use of this approach requires the identification of transactions on active markets in relation to instruments that, in terms of risk factors, are comparable with the instrument to be measured. Level 2 calculation methodologies reproduce prices of financial instruments quoted on active markets (model calibration) and do not contain discretional parameters – parameters for which values may not be inferred from quotations of financial instruments present on active markets or fixed at levels capable of reproducing quotations on active markets – that significantly influence the final measurement.

The following are measured using level 2 input models:

- bonds without official quotations expressed by an active market and whose fair value is determined through the use of an appropriate credit spread which is estimated starting from contributed and liquid financial instruments with similar characteristics;
- loans whose fair value is determined through the use of an appropriate credit spread which is estimated starting from market data of financial instruments with similar characteristics;
- derivatives (including securitised derivatives) measured through specific models, fed by input parameters (such as yield, foreign exchange and volatility curves) observed on the market;
- structured credit products (ABSs, HY CLOs, CDOs, etc.) for which significant prices are not available and whose fair value is measured using valuation techniques that consider parameters that can be gathered from the market;
- non-contributed equity instruments measured based on direct transactions, that is significant transactions on the stock registered in a time frame considered to be sufficiently short with respect to measurement date and in constant market conditions, or using the "relative" valuation models based on multipliers;
- hedge funds in which Level 2 assets predominate, as a percentage of the NAV, provided the Level 3 instruments do not exceed a set threshold.

In case of instruments classified as level 3, the calculation of the fair value is based on valuation models which consider input parameters not directly observable on the market, therefore implying estimates and assumptions on the part of the valuator.

In particular, the valuation of the financial instrument uses a calculation methodology which is based on specific assumptions of:

- the development of future cash flows, which may be affected by future events that may be attributed probabilities presumed from past experience or on the basis of the assumed behaviour;
- the level of specific input parameters not quoted on active markets, for which information acquired from prices and spreads observed on the market is in any case preferred. Where this is not available, past data on the specific risk of the underlying asset or specialised reports are used (e.g. reports prepared by Rating agencies or primary market players).

The following are measured using this method:

- some transactions in derivatives, bonds, or complex structured credit instruments measured using level 3 inputs;
- hedge funds in which the level 3 assets are above a set limit;

- private equity funds, private debt funds, real estate funds and closed-end funds resulting from sales of non-performing loans valued at NAV, with possible discounts;
- shareholdings and other equities measured using models based on discounted cash flows or using equity methods;
- loans whose fair value is determined through the use of a credit spread that does not meet the criteria to be considered level 2;
- loans with underlying equity risk, whose fair value is calculated based on the discounting of expected contractual flows.

The transfer of fair value levels of financial assets and financial liabilities measured at fair value on a recurring basis occurs, as established by IFRS 13, as follows: the transfer between levels 2 and 3 occurs upon a change in the observability or significance of an input to the measurements; and the transfer between levels 1 and 2 or 3 occurs upon a change in the availability of prices in an active market.
For OTC derivatives, the initial choice of the level of fair value hierarchy depends on the degree of observability and significance of the parameters used to determine the risk-free component. The calculation of the counterparty/issuer default risk component may result in a transfer to level 3 when the current exposure is positive for the bank and the counterparty is in non-performing loan status, or when the determination of default risk requires unobservable inputs and the bilateral credit value adjustment (bCVA) component is significant when compared to the overall fair value of the netting set, or when the counterparty's sensitivity to downgrading is significant when compared to the overall fair value of the netting set.
For non-contributed equity instruments, the change of the level occurs:

- when inputs observable on the market (e.g., prices defined based on comparable transactions on the same instrument between independent and informed counterparties) have become available during the period. In this case, Intesa Sanpaolo reclassifies from level 3 to level 2;
- when the directly or indirectly observable elements used as the basis for the valuation cease to exist, or when they are no longer up to date (e.g., comparable transactions that are no longer recent or multiples that are no longer applicable). In this case, Intesa Sanpaolo uses valuation techniques that use unobservable inputs.

Valuation of financial instruments

The valuation of financial instruments entails the following phases:

- identification of the sources for valuation: for each asset class, the Guidelines and Rules for Valuation of Financial Instruments at Fair Value establish the processes that are necessary to identify market parameters and the manner according to which such data must be extracted and used;
- validation and processing of input data for periodic valuation: this stage consists of the accurate verification, at each accounting measurement date, of the market parameters used (verifying the integrity of data contained on the proprietary platform with respect to the source of contribution), reliability tests (consistency of each single figure with similar or comparable figures) and verification of concrete application means.
- certification of the measurement methods: this phase is aimed at verifying the consistency and the adherence of the various measurement techniques used with current market practice, at highlighting any critical aspects in the measurement models used and at determining any adjustments necessary for measurement.
- monitoring and revision of the measurement methods: the monitoring consists of the ongoing checking of the adherence to the market of the valuation model and enables the timely discovery of any gaps, in order to initiate the necessary checks and measures.

Identification, certification and processing of the input data for the measurements

The fair value calculation process and the need to distinguish between products which may be measured on the basis of effective market quotes rather than through the application of measurement techniques, highlight the need to establish univocal principles in the determination of market parameters. To this end, the Guidelines and Rules for Valuation of Financial Instruments at Fair Value establish the processes needed to identify the market parameters, the contribution sources considered appropriate and how the data must be received (cut-offs) and used for the measurement of financial instruments held for any purpose in the proprietary portfolios of the Parent Company and its subsidiaries. The same sources are used in measurements carried out for third parties under Service Level Agreements, entered into in advance. The adequacy of the input data for the measurements is guaranteed by the respect of reference requirements, which are based on comparability, availability and transparency of the data, or the possibility of extracting the figure from one or more info providing systems, measuring the contribution bid-ask, and lastly, for OTC products, verifying the comparability of the contribution sources.
The use of all market parameters in Intesa Sanpaolo is subordinated to their certification by the Financial and Market Risks Head Office Department, in terms of specific controls (verifying the integrity of data contained on the proprietary platform with respect to the source of contribution), reliability tests (consistency of each single figure with similar or comparable figures) and verification of concrete application means.

Certification of measurement methods

The measurement methods used by the Intesa Sanpaolo Group are certified by the Financial and Market Risks Head Office Department, with the involvement of all relevant structures. The purpose of the certification is to verify the consistency of the methods with current market practice, to highlight any problems or limitations, and to determine any fair value adjustments, in accordance with the applicable regulations. The certification process considers all aspects of the measurement method (basic assumptions, mathematical derivation, any approximations, numerical algorithms used, inputs and outputs) but also all contextual elements that are relevant to the management, including the characteristics of the associated products (payoffs, early termination clauses, etc.), any ancillary agreements (e.g. netting or collateral agreements), the market where the products are traded, and how they are used by end users (e.g. precision vs. performance, calculation of risk measures, etc.). These aspects are subject to qualitative and quantitative analysis and are duly reported in the internal documentation.
The possibility of independent validation issued by high standing financial service companies is also envisaged in highly-complex cases and/or in presence of market turbulence (market dislocation).
At the end of the certification process, the measurement method is recorded in the Rules for Valuation of Financial Instruments at Fair Value.

Monitoring and review of measurement methods
As required by the applicable regulations, the measurement methods used are subject to ongoing monitoring of their performance with respect to the evolution of financial instruments, markets and methodological innovations developed by the scientific community, in order to ensure their continuous alignment to the market, promptly highlight any inadequacies and initiate the necessary checks and actions. The Rules for Valuation of Financial Instruments at Fair Value detail all elements considered for the periodic monitoring and revision of the measurement methods. The functions involved in the monitoring process are the same as those involved in the process of certification of the measurement methods mentioned above and in the IPV process governed by the Guidelines and Rules on Independent Price Verification.

Measurement risk: fair value adjustments
The Intesa Sanpaolo Group defines measurement risk as the risk of losses arising from the measurement uncertainty for the fair value exit price of financial instruments, due to any limitations of the measurement techniques used or particular market conditions.
The main measure of the measurement risk associated with a financial instrument of the fair value adjustments, which are designed to take into account the valuation uncertainty or the difficulty in the disposal of specific financial positions, and may relate to a single financial instrument or to the net position for a particular risk factor. The adjustments may be calculated as add-ons to the valuation or included directly in the valuation. They are regularly reviewed, also considering market trends, or the introduction of new liquid instruments, different calculation methodologies and, in general, methodological advances which may also lead to significant changes in measurement methods chosen and their implementation.
In particular, the Intesa Sanpaolo Group envisages fair value adjustments for the following categories of measurement uncertainty.

- Uncertainty of input data: any valuation uncertainty related to the input data for the valuation (whether mid, bid or ask) is measured with respect to temporary or structural conditions on the markets or in relation to the size of the values held (in the case of concentration), and where necessary a fair value adjustment is made, quantifying the consequent impact on the valuations.
- Illiquidity of the underlying positions or risk factors: similarly to the case above, the market bid-ask spread is measured and, where necessary, a fair value adjustment is made, quantifying the consequent impact on the valuations.
- Model risk: this is based on the identification and use of variants of the same model or alternative models, with which to carry out comparison analyses aimed at quantifying the variability of the valuations (in particular any directionality of the price when the model changes) and the behaviour of the model in various market scenarios (stress tests). The quantification of the fair value adjustment is based, where possible, on easily comprehensible and measurable financial variables (e.g. vega, delta, correlation shift).
- Counterparty and funding risk: counterparty and funding risks, collectively referred to as XVA, include Bilateral Credit Value Adjustment (bCVA) and Funding Value Adjustment (FVA). The bCVA takes account of the counterparty risk premium associated with the possibility that the counterparties may not honour their mutual commitments (for example in the event of bankruptcy). This component derives, in turn, from two components: the Credit Value Adjustment (CVA, negative) and the Debt Value Adjustment (DVA, positive), which consider, respectively, the scenarios where the Counterparty goes bankrupt before the Bank (and the Bank has a positive exposure towards the Counterparty), and vice versa the scenarios where the Bank goes bankrupt before the Counterparty (and the Bank has a negative exposure towards the Counterparty). The Funding Value Adjustment (FVA, negative), on the other hand, takes into consideration the funding risk premium, connected to the costs of funding the cash flows (coupons, dividends, collateral, etc.) generated by the Bank's overall OTC derivatives portfolio. The calculation of the XVAs depends on the overall exposure between the two counterparties, calculated using techniques for simulating the underlying risk factors of the transactions considered, taking into account any counterparty risk mitigation arrangements (in particular netting and collateralisation agreements), as well as any contractual clauses. The calculation of the XVAs also depends on the Loss Given Defaults (LGDs) based on the estimated value of the expected recovery in the event of counterparty default, and the probability of counterparty default (PD). LGDs and PDs are obtained from credit default swap market quotes or are based on internal estimates by sector/rating used for credit risk. In addition, the FVA calculation is based on a funding curve representative of the best market counterparties that the Bank could renegotiate transactions with, in accordance with the most IFRS 13 advantageous market principle, as there is currently no real main market for these transactions.

The management process for fair value adjustments is formalised in the Guidelines and Rules for Valuation of Financial Instruments at Fair Value and the Rules for the valuation of unlisted equity investments with appropriate calculation methodologies on the basis of the different configurations of the points set out above, and is carried out in the most objective, consistent and systematic manner possible by the Financial and Market Risks Head Office Department. The introduction and release of the fair value adjustments depends on the factors described above. Such processes are a combination of quantitative elements that are rigidly specified and qualitative elements, valued based on the different configuration over time of the risk factors which generated the adjustments. Thus, the estimates subsequent to initial recognition are always guided by the mitigation or elimination of said risks.
For new products, the decision to apply the adjustments is taken during the new product approval process, upon the proposal of the Financial and Market Risks Department.
The application of the adjustments is subject to an authorisation procedure that, above a certain warning threshold defined for specific cases, involves both the area of the Chief Risk Officer and the Manager responsible for preparing the Company’s financial reports.

Fair value levels 2 and 3: valuation techniques and inputs used

The sections below provide a summary of the information, by type of financial instrument (securities, derivatives, structured products, hedge funds, and loans), on the valuation models used.

I. Valuation of non-contributed debt securities

The fair value of non-contributed bonds is measured using the income approach, i.e. by calculating the present value of expected future cash flows using an appropriate risk premium represented by the credit spread, identified on the basis of contributed and liquid financial instruments with similar characteristics. The sources used for this measurement are the following:

- contributed and liquid debt securities of the same issuer;
- credit default swaps on the same reference entity;
- contributed and liquid securities of an issuer with the same rating and belonging to the same sector.

In any case, the different seniority of the security to be priced is considered with regard to the issuer's debt structure.
In the case of Italian public issuers, a rating/maturity matrix is defined on the basis of the spread levels on government issues, to which the spreads among the various rating/maturity classes with respect to public issues (regions, provinces, municipalities, government entities) are applied.
When applying the spread for the pricing of the non-contributed instrument, if the estimated 'fair' credit curve does not respect the same characteristics of the instrument, correction factors are considered.
Also, for bonds that are not quoted on active markets, an extra spread, estimated based on the bid/ask spread recorded on the market, is added to the "fair" credit spread component, to take account of the higher premium demanded by the market compared to similar contributed securities.
Finally, if the instrument includes an optional component, a further adjustment is made to the spread by adding a component designed to capture the hedging costs of the structure and any illiquidity of the underlying assets. This component is calculated based on the type of option, using the corresponding valuation models for derivatives mentioned below.

Similarly, Intesa Sanpaolo's credit spread for the Banking Group's financial liabilities designated at fair value is determined and measured based on the bonds issued by the Parent Company, with regular, periodic coupons, maturity beyond one year and quoted on an active market in compliance with IAS/IFRS. The implicit credit rating is determined on the basis of market prices and subsequently adjusted through interpolation models which generate credit spread curves by type of coupon, maturity and subordination level. Similarly, the issued certificates are measured at fair value by breaking them down into the following two components: an issued bond, measured as described above, and an option component, measured using the corresponding derivative pricing models described below.

Finally, measurement of the financial liabilities of the Insurance Companies designated at fair value (mainly liabilities associated with unit-linked investment contracts that do not present significant insurance risk) reflects the market value of the underlying assets, which are determined in application of the various methods described herein.

II. Valuation of loans

Loans are measured at fair value through contributions from info providers when available or by calculating the present value of expected future cash flows using an appropriate credit spread, identified starting from the following sources:

- contributed loans on the market;
- sector/rating-specific loan market curves;
- contributed securities of the same issuer;
- credit default swaps on the same reference entity.

In any case, the different seniority of the instrument to be priced is considered with regard to the issuer's debt structure.
When applying the spread for the pricing of the loan, if the estimated 'fair' credit curve does not respect the same characteristics of the instrument, correction factors are considered.
Moreover, where, in determining the credit spread of the loans, reference is made to the curves created through bonds, a Bond – Loan basis must be applied, to capture the different structure of the market, if any, and the different type of loan.
In order to consider the premium required by the market for illiquid and/or structured instruments, several adjustments are applied to the credit spread.
Loans with an underlying unlisted equity risk (which include financial instruments that, pursuant to IAS 32, cannot be classed as equity, e.g. loans convertible into shares) are usually measured by discounting the cash flows provided for by the contract. Since these are debt securities, the cash flows are normally discounted using a rate consisting of the sum of: a risk free rate, a spread deriving from the CDS or measured on listed securities or similar disbursements, and any additional risk premium.

In the case of non-performing loans, the fair value is determined based on the recoverable amount of the position. This estimate is made taking into account the contractual elements that characterise the loan and may involve, for example, the valuation of the cash flows from the sale of the real estate pledged as collateral or the valuation of any capital instruments that may be acquired following the introduction of an equity conversion clause for the position.

III. Valuation of OTC derivatives

Derivatives, if not traded on regulated markets, are Over The Counter (OTC) instruments, which are bilaterally exchanged with market counterparties and are measured through specific measurement methods and input parameters (such as, for example, interest rate, foreign exchange and volatility curves) observed on the market and subject to the certification monitoring illustrated above.
The fair value of an OTC derivative instrument is calculated considering the risk premium related to the various underlying risk factors. Specifically, there are two relevant cases, according to whether or not the instrument is subject to

collateralisation agreements (CSAs) aimed at mitigating the counterparty and funding risk.

a. For CSA transactions with characteristics that reduce counterparty and funding risk to a negligible level, the fair value is calculated according to the non-arbitrage principle, by including the market risk premium related to the risk factors underlying the contract (e.g. interest rates, volatility, etc.), and, in the most significant cases, using the rate of remuneration for the collateral as the discount rate for the future cash flows.
b. For transactions without CSAs, or with CSAs with characteristics that do not reduce the counterparty and funding risk to a negligible level (e.g., One Way CSAs), or with non-negligible limits or minimum transfer amounts, the fair value of the instrument may be stated, under appropriate circumstances, as the sum of the reference (or base) value, equal to the price of the corresponding collateralised instrument, and several additional valuation components related to the counterparty and funding risk premium, referred to jointly as XVA (see "Measurement risk: fair value adjustments”).

In view of the number and complexity of the OTC derivatives, a systematic reference framework has been developed which represents the common elements (calculation algorithms, processing models, market data used, basic assumptions of the model) that are used for their measurement.

The table below illustrates the main models used to measure OTC derivatives based on the category of underlying asset.

Underlying class	Valuation models	Market data and input parameters
Interest rate	Net Present Value, Black, SABR, Libor Market Model, Hull-White, Bivariate log-normal, Rendistato, Hagan exact formula for CMS	Interest rate curves (deposits, FRA, Futures, OIS, swap, basis swap, CMS, Rendistato basket), cap/floor/swaption option volatility, correlation between interest rates
Foreign exchange rate	Net present Value FX, Garman-Kohlhagen, Lognormal with Uncertain Volatility (LMUV), Stochastic Local Volatility (SLV), Local Volatility (LV)	Interest rate curves, spot and forward FX curves, FX volatility, "quanto" volatility and correlations
Equity	Accrual, Net present Value Equity, Generalised Black-Scholes, Heston, Local Volatility, Jump Diffusion	Interest rate curves, underlying asset spot rate, expected dividends, underlying asset volatility and correlation between underlying assets, "quanto" volatility and correlations
Inflation	Inflation NPV, Inflation SABR, Inflation Jarrow-Yildirim	Nominal and inflation interest rate curves, interest and inflation rate volatility, seasonality ratios of consumer price index, correlation between inflation rates
Commodity	Net present Value Commodity, Generalised Black-Scholes, Independent Forward, Local Volatility, 2-Factors Jump Diffusion	Interest rate curves, spot rate, forwards and futures of underlying assets, underlying asset volatility and correlation between underlying assets, "quanto" volatility and correlations
Loans	Net present Value, CDS Option (or log-normal model), Contingent CDS	Probability of default, Recovery rate, credit index volatility.

As envisaged by IFRS 13, in determining fair value the Intesa Sanpaolo Group also takes into account the effect of non-performance risk. This risk includes changes in the counterparty credit rating and changes in the issuer’s own credit risk.

IV. Valuation model for structured credit products

With regard to asset-backed securities (ABSs), if significant prices are not available, valuation techniques are used that take into account parameters that can be gathered from an active market (level 2 inputs) or, where parameters cannot be observed, estimated parameters (level 3 inputs, where significant).

In this case, the cash flows are obtained from infoproviders or specialised platforms; the spreads are gathered from prices available on the market/market info provider, further strengthened by a qualitative analysis relative to the performance of the underlying assets presumed from periodic investor reports and aimed at highlighting structural aspects that are not (or not fully) encompassed by the analyses described above, relating to the actual future ability to pay the expected cash flows and analyses of relative value with respect to other similar structures.

In the case of securitised high-yield loans to European corporate borrowers (CLO HY loans), valuation techniques call for calculation of the net present value of the expected cash flows, determined through specialised platforms, discounted using market spreads. When modelling expected future flows, account is taken of all contractual aspects of the HY CLO loans that may influence the waterfall, i.e. the distribution of cash flows from the collateral on the notes.

After this valuation, credit analyses on underlying assets are fine-tuned to incorporate further valuation elements not included in the quantitative models. In particular, a Qualitative Credit Review is provided for and entails an accurate analysis of credit aspects referred to the specific structure of the HY CLO and to the collateral present. This is to identify any present or future weaknesses which emerge from the characteristics of the underlying assets, which could have been missed by rating agencies and as such not fully considered in the valuations described in the previous point.

V. Valuation of non-contributed equities

Level 2 equities include:

- equities measured based on direct transactions, that is significant transactions on the stock registered in a time frame considered to be sufficiently short with respect to measurement date and in constant market conditions;
- equities measured using relative methods, based on multipliers: implied multiples in transactions in comparable listed or unlisted companies, within a time frame deemed sufficiently short with respect to the time of measurement and under constant market conditions (M&A multiples) or implicit multiples in the stock market prices of a sample of comparable companies (stock market multiples).

Level 3 equities for which the “relative” models described above are not applicable in significant terms, and, therefore, “absolute” valuation models are used, include:

- equities for which analytical models based on flows are used, which determine the value through estimates of the cash or income flows that the company is expected to generate over time, discounted using an appropriate rate based on the level of risk of the instrument;
- equities measured based on asset criteria such as NAV or Adjusted Net Asset Value (ANAV), which estimates the fair value of the various components of the assets of the investee.

Any values deemed representative of the fair value of the equity instrument deriving from contractual clauses (for example, options) are classified in level 2 or 3 of the fair value hierarchy, according to the observability of the inputs used in the valuation. Specifically, if the negotiation of the clause resulted in strike prices or pre-defined algorithms and multiples, the instrument is classified in level 2.

The cost criterion as estimate of fair value is used to a lesser extent, where none of the previous methods are applicable due to lack of sufficient information, and in the cases where there is a wide range of possible fair value measurements and it is not possible to identify the most appropriate value among these.

This case also includes Equity Instruments which, in accordance with IAS 32, have the characteristics to be considered as equities.

VI. The valuation of hedge funds

The determination of the fair value of a hedge fund is the result of an analytical process that involves two distinct approaches applied respectively to investments in funds made through the direct purchase of units and to funds managed through a Managed Account Platform (MAP), which ensures daily transparency of the instruments underlying the funds.

For the funds not managed via a MAP, the fair value corresponds to the Net Asset Value (NAV) provided by the fund administrator, to which an adjustment can be applied, deriving from a measurement process aimed at capturing the main risk factors that the management of the funds is subject to, which consist of the following two types:

- counterparty (broker) risk, i.e. the risk that the assets of the fund are exposed to when a single service provider is entrusted with prime brokerage or custodian activities, subject to the risk of default;
- illiquidity risk, i.e. the risk that the assets of the fund are illiquid due to the limited prices available or due to a lack of information on the assessment policies used by the fund.

These risks are assessed on the basis of the information contained in the documentation received periodically from the fund managers or administrators.

For the funds managed via a MAP, the Fair Value corresponds to the NAV provided by the fund administrator. For this type of fund, no adjustment is applied because it is considered that the infrastructure that guarantees the daily transparency enables sufficient control and monitoring of the underlying instruments to mitigate counterparty and illiquidity risk.

For both types of investment, the fair value hierarchy level is assigned based on prevalence, in terms of percentage of NAV, of the weight of assets priced according to the various levels.

VII. The valuation of private debt funds

For Private Debt AIFs (Alternative Investment Funds), the investment authorisation process involves an initial due diligence to verify the consistency between each fund's asset valuation policy and the Guidelines and Rules for Valuation of Financial Instruments at Fair Value. The fund is subsequently valued at NAV.

VIII. Valuation of closed-end private equity funds, real estate funds and closed-end funds resulting from sales of non-performing loans

Closed-end private equity funds are usually valued using the latest Net Asset Value approved by the asset management company (published half yearly or quarterly), adjusted solely to take into account events that have not yet occurred at the reference date of the NAV, such as:

- a material transaction on a portfolio company;
- the bankruptcy or liquidation of a portfolio company;
- the alignment of any listed assets to current prices;
- call ups and distributions by the fund.

Closed-end real estate funds are valued using the last available Net Asset Value, adjusted for any subsequent call ups or distributions and, where considered necessary, applying a discount calculated using an internal model. Specifically, this model enables the calculation of a discount on the Net Asset Value based on five different variables: (i) the size of the asset management company that manages the fund; (ii) the number of subscribers; (iii) the fund's historical return; (iv) the fund's return for the period; and (v) the level of debt. These variables are calibrated differently based on the business model and the fund's resulting risk profile, distinguishing between core, value added and opportunistic funds.

For closed-end funds resulting from sales of non-performing loans, the NAV is only considered to be the fair value after having been specifically checked by analysing the methods and parameters adopted by the asset management company to assess its adequacy with respect to the provisions of IFRS 13. If this analysis cannot be performed, an independent fair value measurement is carried out on the assets underlying the fund (the look through approach), based on information about the expected recovery prospects for the loans and using a discount rate that considers the market parameters and the expected return for a potential third party investor.

In the absence of the information needed to perform the measurements referred to above, the fair value of the fund is calculated by making adjustments to the NAV by applying discount parameters determined based on stock market multiples and transaction multiples for funds that are considered comparable to the fund being measured in terms of structure, size, type and investment strategy.

Valuation of financial assets and liabilities not measured at fair value on a recurring basis

Finally, for asset and liability financial instruments measured at amortised cost, whose fair value is determined solely for the purposes of disclosure in the notes to the financial statements, the following is noted:

- the fair value of the bonds is calculated using the methods described above;
- the fair value measurement of the other medium- and long-term asset and liability financial instruments is performed by discounting future cash flows using the discount rate adjustment approach, which requires credit risk factors to be taken into account in the discount rate for future cash flows;
- for short-term assets and liabilities, the book value is assumed to be a reasonable approximation of fair value.

For more information see paragraph A.4.5.4 of Part A of the Notes to the Consolidated financial statements.

As required by IFRS 13, the table below highlights, for financial assets and liabilities measured at level 3 fair value, quantitative information on the significant, unobservable inputs used in the fair value measurement.

(thousands of euro)

Financial assets/ liabilities	Valuation technique	Main non-observable input	Minimum value of range of changes	Maximum value of range of changes	Unit	Favourable changes in FV	Unfavourable changes in FV
Securities and loans	Discounting Cash Flows	Credit Spread	-7	4	%	5,486	-2,959
Structured securities and loans	JD model	JD parameters	6	-7	%	32	-272
Structured securities and loans	Two-factor model	Correlation	-30	60	%	465	-223
ABSs	Discounting Cash Flows	Credit Spread	-5	5	%	6,363	-5,917
ABSs	Discounting Cash Flows	Recovery rate	-25	10	%	-5,360	2,144
CLOs Cash	Discounting Cash Flows	Credit Spread	-7	9	%	2,602	-3,316
OTC derivatives subject to FV adjustment for CVA/DVA	CVA	Loss Given Default Rate (LGD)	0	100	%	2,791	-4,374
OTC derivatives subject to FV adjustment for CVA/DVA	CVA	Probability of default (PD) based on counterparty's internal rating	CCC	BBB	Internal rating	96	-87
OTC Derivatives - Equity basket option	Black - Scholes model	Equity basket correlation	76.77	93.64	%	29	-25
OTC Derivatives - Equity Option	Black - Scholes model	Historical volatility	8.15	82.83	%	5,276	-3,094
OTC Derivatives - Equity Option	Marshall Olkin Model	Historical correlation	-4.23	73.37	%	413	-271
OTC Derivatives - Spread option on swap rates	Bivariate log-normal model	Correlation between swap rates	-78.80	69.38	%	276	-390

General prudent value principles

The framework of financial measurements is completed with the prudent valuation of financial instruments measured at fair value, which involves the calculation of additional valuation adjustments for prudential purposes, without impacts on the fair value calculated for accounting purposes in accordance with the IFRS.
The Intesa Sanpaolo Group governs and defines the prudent value measurement of financial instruments through the Group Guidelines and Rules for Prudent Valuation of Financial Instruments at Fair Value, prepared by the Financial and Market Risks Head Office Department and applied by the Parent Company and all the consolidated subsidiaries of the Banking Group.
The "Guidelines on Prudent Valuation of Financial Instruments", once a favourable opinion has been given by the Group Financial Risk Committee, are revised and approved at least on an annual basis by the Board of Directors, with the support of the Risks Committee. The "Rules for Prudent Valuation of Financial Instruments" are revised and approved at least on an annual basis by the Group Financial Risk Committee, which is specifically delegated to do so by the Management Bodies, and which also reviews material changes and updates proposed by the Financial and Market Risks Head Office Department.
In accordance with the provisions of Regulation (EU) 575/2013 (Capital Requirement Regulation – CRR), prudent valuation entails the calculation of specific additional valuation adjustments (AVAs) for the financial instruments measured at fair value, aimed at capturing different sources of valuation uncertainty and ensuring the achievement of a suitable level of certainty in the measurement of the positions. The total value of the AVAs is deducted from the Common Equity Tier 1 capital, without impacts on accounting fair values.
The Intesa Sanpaolo Group, in line with criteria indicated in Delegated Regulation (EU) 2016/101, is subject to the application of the core approach for the determination of AVAs both at individual and at consolidated level for all the positions measured at fair value. In particular the following AVAs are considered:

- Market price uncertainty: this reflects the uncertainty of the market prices, calculated at valuation exposure level.
- Close-out costs: it reflects the uncertainty of the exit price calculated at valuation exposure level.
- Model risks: it considers the valuation model risk which arises due to the potential existence of a range of different models or model calibrations, which are used by market participants, and the lack of a firm exit price for the specific product being valued.
- Unearned credit spreads: it reflects the valuation uncertainty in the adjustment necessary according to the applicable accounting framework to include the current value of expected losses due to counterparty default on derivative positions.
- Investment and funding costs: it represents the valuation uncertainty in the funding costs used when assessing the exit price according to the applicable accounting framework.
- Concentrated positions: it reflects the uncertainty relating to the exit price of the positions defined as concentrated.
- Future administrative costs: it considers administrative costs and future hedging costs over the expected life of the valuation exposures for which a direct exit price is not applied for the close-out costs AVAs for concentrated positions.
- Early termination: it considers the potential losses arising from non-contractual early terminations of customer trades.
- Operational risks: it considers the potential losses which may be incurred consequently to the operational risks connected to the valuation processes.

The prudent value corresponds to the exit price from the position with a level of certainty equal to 90%. Where possible, this value is determined on the basis of a distribution of exit prices observed on the market. In all the other cases, an expert-based approach is used, referring to the qualitative and quantitative information available.
The AVA value associated to the single position and to the single source of uncertainty in valuation thus corresponds to the difference between the prudent value and the fair value. The total AVA is obtained by aggregating the single AVAs, taking into account the corresponding weighting ratios.
The "Rules for Prudent Valuation of Financial Instruments" outline, for each AVA, the definition and interpretation, the scope of application, the input data and the detailed calculation method for each class of financial instrument.
From 30 June 2020 to 31 December 2020, the Intesa Sanpaolo Group has applied an AVAs aggregation factor of 66% as established by Commission Delegated Regulation (EU) 866/2020, published in the Official Journal on 25 June 2020, in order to better manage the extreme volatility of market prices and the systemic shock connected to the COVID-19 pandemic.

Section 14 – Operational risk

Operational risk is the risk of incurring losses resulting from inadequate or failed internal processes, people and systems or from external events[34].

General operational risk management aspects

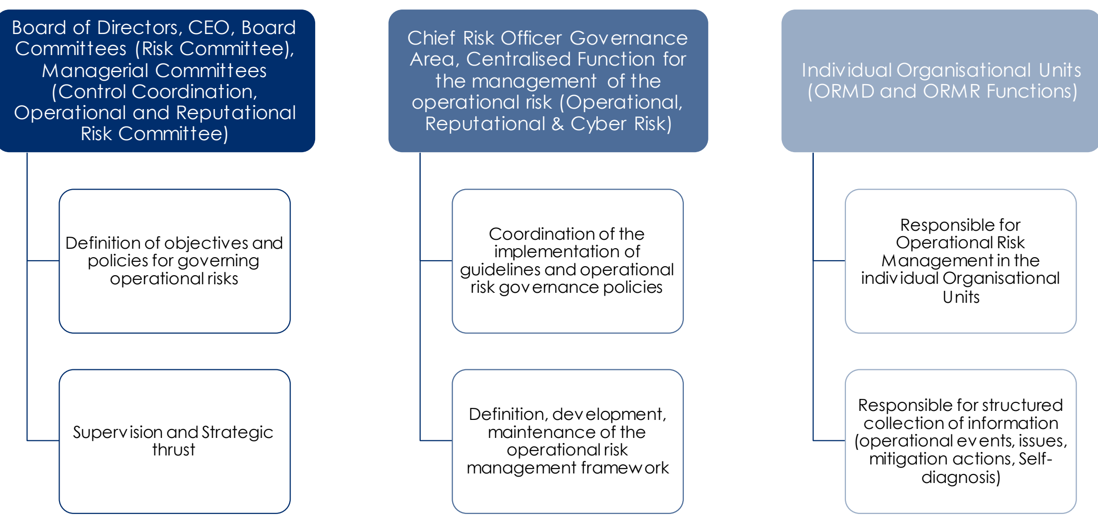
The Intesa Sanpaolo Group adopts an undertaking and management strategy of operational risk based on prudent management principles and aimed at guaranteeing long-term solidity and continuity for the company. In addition, the Group pays particular attention to achieving an optimal balance between growth and profitability and the resulting risks.

In line with these objectives, the Intesa Sanpaolo Group has long since established an overall operational risk management framework, by setting up a Group policy and organisational processes for measuring, managing and controlling operational risk.

Governance Model

An effective, efficient framework for managing operational risks must be fully integrated into decision-making processes and management of business operations. Accordingly, the Intesa Sanpaolo Group has chosen to involve the organisational units (business units, central/support structures) of the Parent Company, the Banks and Group companies with direct responsibility in the operational risk management process.
The operational risk governance model has been developed in view of:

– optimising and maximising organisational safeguards, interrelations and information flows between the existing organisational units and integration of the operational risk management approach with other company models developed for specific risks (business continuity, IT security, etc.);
– guaranteeing transparency and spread of the models, methods and criteria of analysis, assessment and measurement criteria used to facilitate the process of cultural diffusion and comprehension of the logic underlying the choices made.



The Group has a centralised function within the Enterprise Risk Management Department for management of the Group's operational risk. This function is responsible for the definition, implementation, and monitoring of the methodological and organisational framework, as well as for the measurement of the risk profile, the verification of mitigation effectiveness and reporting to Top Management.
In compliance with current applicable regulations, the individual organisational units are responsible for identifying, assessing, managing and mitigating risks. Specific officers and departments have been identified within these organisational units to be responsible for Operational Risk Management (structured collection of information relative to operational events, detection of issues and related mitigation actions, scenario analyses and evaluation of the business environment and internal control factors).
In order to support the operational risk management process on a continuous basis, a structured training programme was implemented for employees actively involved in this process.

[34] As far as the financial losses component is concerned, the Operational risk includes: legal and compliance risk, conduct risk, IT and Cyber risk, physical security risk, business continuity risk, financial crime and financial reporting risk, third-party and model risk. Strategic risk and reputational risk are not included.

ICT risk

In line with the methodological framework established for the governance of operational risks, the ICT Risk management framework has been developed with a view to integrating and coordinating the specific expertise of the structures involved.
ICT (Information and Communication Technology) risk means the risk of economic, reputational or market share losses related to the use of information and communication technology. In the integrated view of corporate risk for supervisory purposes, this risk is considered, according to specific aspects, as operational, reputational and strategic risk.
ICT risk includes:

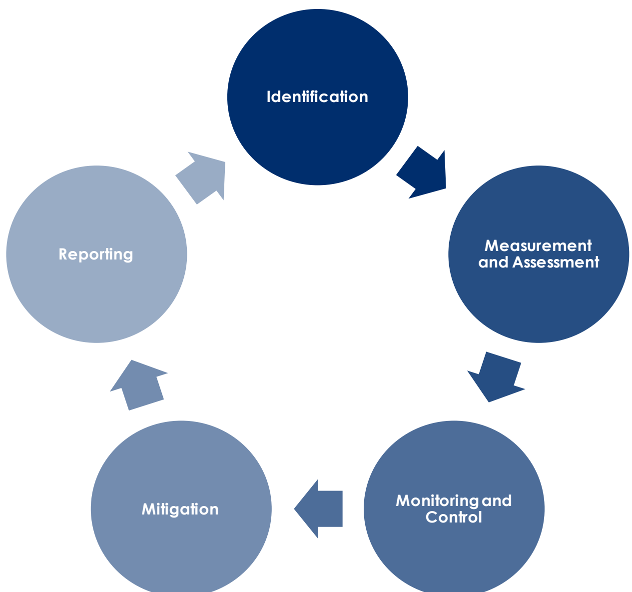
- cyber risk: the risk of sustaining economic loss, reputational damage or loss of market shares due to:
  - any unauthorised access or attempt to access the IT system of the Group or the data or digital information it contains;
  - any event (intentional or unintentional), favoured or caused by the use of technology or related to it that has or could have a negative impact on the integrity, availability, confidentiality and/or authenticity of company data and information, or on the continuity of business processes;
  - the improper use and/or dissemination of data and digital information also not directly produced and managed by the ISP Group.

  Cyber risk also includes IT security risk.
- IT risk: the risk of sustaining economic loss, reputational damage or loss of market shares in relation to the use of the corporate IT systems and related to malfunctioning hardware, software and networks.

The Intesa Sanpaolo Group considers its information system a tool of primary importance to the achievement of its strategic, business and social responsibility objectives, including in the light of the critical nature of the company processes that depend on it. Accordingly, it undertakes to create a resilient environment and to invest in assets and infrastructure designed to minimise the potential impact of ICT events and to protect its business, image, customers and employees.
The Group has therefore adopted a system of principles and rules intended to identify and measure the ICT risk to which company assets are exposed, assess the existing safeguards and identify adequate methods of managing such risks, in accordance with the operational risk management processk.

Group Operational Risk Management Process

The Intesa Sanpaolo Group's operational risk management process is divided into the following phases:



Identification

The identification phase includes the collection and classification of qualitative and quantitative information that makes it possible to identify and describe the Group's potential areas of operational risk. In particular, it calls for:

- the collection and updating of the data on operational events (Loss Data Collection), decentralised to the Organisational Units;
- identification of the company processes and components of the IT system at highest potential risk;
- determination of the applicability and relevance of the operational risk factors defined;
- identification of projects that will involve relevant changes to the IT system or changes to critical components of the IT system;
- identification of significant risk scenarios, also based on the external context (e.g., external loss data, regulatory development, emerging trends, strategic and threat intelligence);
- identification and analysis of issues affecting the Group's areas of operation.

Measurement and assessment

The measurement and assessment phase includes the process of qualitative and quantitative determination of the Group's exposure to operational risks.
It includes:

- at least annual performance of the process of assessing the exposure to operational and ICT risk (self-diagnosis: combination of the Operational and ICT Risk Assessment processes);
- performance of advance analyses of operational and ICT risks deriving from agreements with third parties (e.g., outsourcing of activities), business operations or project initiatives, introduction or revision of new products and services, launch of new activities and entry into new markets;
- the definition of the relevance of identified issues;
- transformation of the evaluations collected (e.g., internal and external operational loss data, management levels of risk factors, probability and impact in the event of occurrence of risk scenarios) into synthetic risk measures;
- determination of economic and regulatory capital for operational risk, through the internal model and the simplified methods defined by the regulations.

Monitoring and control

The purpose of the monitoring phase is to analyse and monitor on an ongoing basis the development of the exposure to operational risks on the basis of the structured organisation of the results of the identification, assessment and measurement processes and the observation of indicators that represent a valid proxy of the exposure to operational risks (e.g., limits, early warnings and indicators established within the RAF).

Mitigation

The mitigation phase includes activities aimed at containing the exposure to operating risks, defined on the basis of the results of the identification, measurement, assessment and monitoring phases. It includes:

- identification, definition and implementation of the corrective measures (mitigation actions) necessary to solve the identified gaps or to bring back the relevance of the identified issues within the defined risk tolerance;
- promotion of initiatives designed to spread a culture of operational risk within the Group;
- definition of strategies for transferring operational risks, in terms of optimisation of insurance coverage and any other forms of risk transfer adopted by the Group from time to time.

In this regard, in addition to a traditional insurance programme (to protect against offences such as employee infidelity, theft and damage, transport of valuables, computer fraud, forgery, cyber-crimes, fire and earthquake, and third-party liability), the Group has taken out an insurance coverage policy named Operational Risk Insurance Programme, in compliance with the requirements established by the regulations and to have access to the capital benefits provided for by the policy, which provides specific cover, significantly increasing the limits and transferring the risk of significant operational losses to the insurance market.

In addition, with respect to risks relating to real estate and infrastructure, with the aim of containing the impacts of phenomena such as catastrophic environmental events, situations of international crisis, and social protest events, the Group may activate its business continuity solutions.

Reporting

The reporting phase includes the preparation of appropriate information flows associated with operational risk management, designed to provide disclosures useful, for example, for:

- analysis and understanding of any dynamics underlying the performance of the level of exposure to operational risks;
- analysis and understanding of the main issues identified;
- defining the mitigation actions and intervention priorities.

The Self-diagnosis Process

Self-diagnosis is the annual process through which the Organisational Units identify their level of exposure to operational and ICT risk. It includes the Operational Risk Assessment and ICT Risk Assessment, in turn consisting of:

- Business Environment Evaluation (VCO): activities used to identify relevant risk factors and assess the related management level.
- Scenario analysis (SA): a method of prospective analysis that takes the form of a systematic process, which is typically repeated at predefined intervals, but which may also be conducted on an ad hoc basis, and which consists in imagining the occurrence of particular situations (or scenarios) and imagining their consequences. Once scenarios have been identified and appropriately characterised, they must be assessed: i.e., one must determine the probability of occurrence (frequency) and potential impact (average impact and worse case) in the event of occurrence of the situation described in the scenario.

Methods for calculating Operational Risk

For regulatory purposes, the Group adopts the Advanced Measurement Approach (below also AMA or internal model), in partial use with the standardised (TSA) and basic approaches (BIA), to determine the capital requirement.
The AMA approach is adopted by Intesa Sanpaolo S.p.A. and the main banks and companies in the Private Banking and Asset Management Divisions, as well as by VUB Banka, VUB Leasing and PBZ Banka.
Following the acquisition of UBI by Intesa Sanpaolo, the former UBI Group companies also participate in determining of the Intesa Sanpaolo Group's capital requirements[35].

The capital requirement amounted to 2,205 million euro as of 31 December 2020, up from 1,697 million euro of 31 December 2019. The increase in the requirement is mainly due to the addition of the UBI Group's operational risk requirements (417 million euro at 31 December 2020).

Breakdown of capital requirements by calculation approach

(millions of euro)

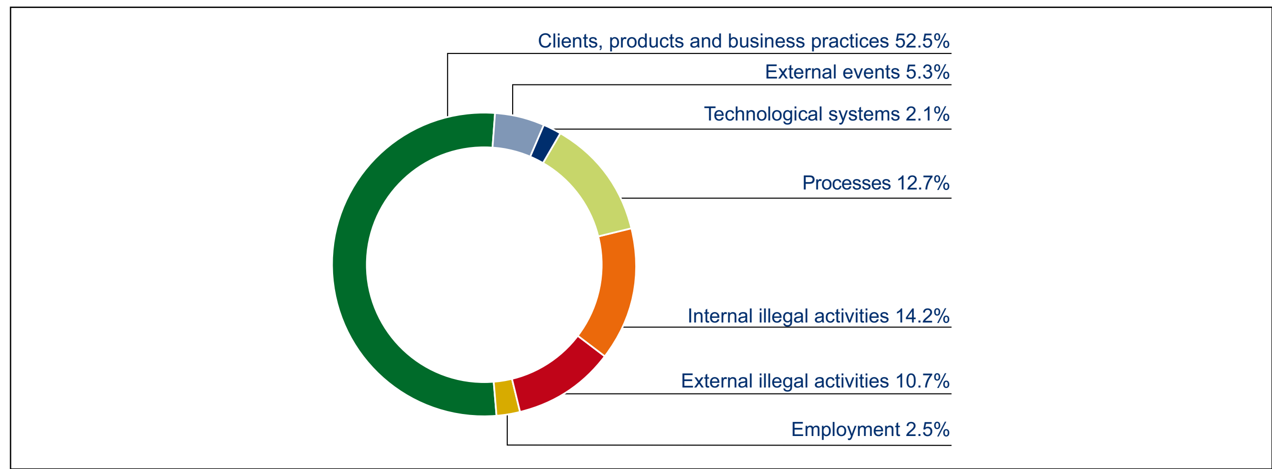
Approach	Capital requirement
Advanced Measurement Approach (AMA)	**1,828**
Traditional Standardised Approach (TSA)	**326**
Corporate Finance	24
Trading & Sales	57
Retail Banking	114
Commercial Banking	75
Payment & Settlement	7
Agency Services	10
Asset Management	31
Retail Brokerage	8
Basic Indicator Approach (BIA)	**51**
Total as at 31.12.2020	**2,205**
Total as at 31.12.2019	**1,697**

The Intesa Sanpaolo Group's internal model for calculating capital absorption is designed to combine all the main sources of quantitative information (operational losses: internal and external events, estimates deriving from the Scenario Analysis) and qualitative information (Business Environment Evaluation).
Capital-at-risk is therefore identified as the minimum amount at Group level required to bear the maximum potential loss (worst case). It is estimated using a Loss Distribution Approach model (actuarial statistical model to calculate the Value-at-risk of operational losses), applied on quantitative data and the results of the scenario analysis assuming a one-year estimation period, with a confidence level of 99.90%. The methodology also applies a corrective factor, which derives from the qualitative analyses of the risk level of the operational environment (VCO), to take into account the effectiveness of internal controls in the various Organisational Units.
The internal model's insurance mitigation component was approved by the Bank of Italy in June 2013 with immediate effect of its benefits on operations and on the capital requirements.

The following shows the breakdown of the capital requirement relating to the Advanced Measurement Approach (Intesa Sanpaolo and UBI AMA) by type of operational event (Event Type).

[35] In particular, the former UBI Group adopts the Advanced Measurement Approach in partial use with the standardised approach (TSA) and basic indicator approach (BIA) to determine its regulatory capital requirement for operational risks. The former UBI Banca Group was authorised to use its AMA model with effect from the June 2012 regulatory calculation for the following companies: UBI Banca, UBI Sistemi e Servizi and IW Bank Private Investments.

Breakdown of capital requirement (Advanced Measurement Approach - AMA) by type of operational event



Impacts from the COVID-19 pandemic

From the outset of the emergency the Group decided to adopt preventive initiatives to ensure business continuity, while also maintaining the maximum level of safety for its customers and employees. This was also done in the light of the rapid development seen in the realm of cyber-threats, which seek to exploit for fraudulent purposes the fears and sense of urgency of individuals and the opportunities offered by the remote-banking solutions adopted by financial institutions. In particular, the business continuity plan was activated and additional actions were immediately identified to respond effectively to the extensive spread of the pandemic (e.g., extension of remote working to almost all head office personnel, online branch personnel and part of the physical branch personnel, enhancement of IT infrastructure for remote connectivity), the digital transformation process was expedited, moving forward significant investments intended to develop methods of interaction with customers (e.g., expansion of the services offered via Internet and mobile banking), security infrastructure for access to the company network and data and information protection measures were progressively enhanced to increase the ability to respond to the sharp rise in cyber-threats and attacks (e.g., distributed denial of service and malware), and numerous training and communications initiatives were launched to raise awareness amongst customers and employees of growing social-engineering and phishing campaigns. The long-term sustainability of the solutions of the most critical suppliers was also verified.

With regard to measures to protect the health of employees and customers, protective devices such as masks and gloves were purchased and distributed, sanitising gel was supplied and company premises were periodically sanitised. Among the various mitigation measures described above, only this latter component was considered for the purposes of calculating the operational risk capital requirement.

In addition, from the very outset of the emergency, access to the branches has been organised in accordance with precise rules on social distancing and the number of employees and customers in the premises, to ensure the protection of their health. This approach was adapted over time based on the different government measures and the course of the contagion.

A contagion risk model was also developed to protect personnel; it supports the decision-making for the measures to be adopted, such as plans for the return of head office personnel able to perform their duties remotely to company offices in accordance with safe distance regulations. A medical questionnaire was developed for employees to complete before they are authorised to return to the office, in addition to a tool that can be used to plan the presence of personnel in the office; this tool ensures centralised monitoring of total presences in the head offices.

At the end of 2020 a voluntary vaccination campaign was launched to provide flu and pneumococcal vaccines to employees.

Section 15 - Equity Exposures: disclosures for positions not included in the trading book

Qualitative disclosure

Exposure in equity instruments not included in the trading book: differentiation of exposures on the basis of the objectives pursued

Investments in equity instruments present in the Intesa Sanpaolo Group - except for those consolidated on a line-by-line basis and the companies of the Insurance Group (the latter deducted in the calculation of Own Funds) - fall into a number of categories, summarised as follows:

- Banking and Financial;
- Non-Financial:
  - Functional to the Group's core business: they contribute directly or indirectly to the implementation of banking, retail and corporate activities, also within and through the "new professional areas";
  - Debt to Equity: from restructuring transactions, managed with a view to recoverability and/or disposal;
  - Other: mainly held for disposal and minor shareholdings that do not fall under the above categories;
- Funds: which differ in terms of strategy and product type (Private Equity, Venture Capital, Real Estate, Infrastructure and Institutional).

Recognition and valuation of the equity instruments not included in the trading book

The equity exposures not included in the trading book are classified under the balance sheet items Investments in associates and companies subject to joint control, Financial assets measured at fair value through profit or loss, and Financial assets measured at fair value through other comprehensive income, in accordance with the IAS/IFRS.

For an explanation of the methods for the recognition and measurement of the equity instruments not included in the trading book, please refer to Part A of the Notes to the consolidated financial statements - Accounting Policies, which sets out, for each individual financial statement caption, the accounting criteria applied by the Intesa Sanpaolo Group (A.2 - Main financial statement captions). In particular, paragraphs 1, 2 and 5 set out the criteria for classification, recognition, measurement and derecognition for "Financial assets measured at fair value through profit or loss (FVTPL)", "Financial assets measured at fair value through other comprehensive income (FVOCI)" and "Investments in associates and companies subject to joint control" respectively; point 16 "Other information" shows the methods for determining impairment losses for investments. For details on the criteria for impairment testing of investments in associates and companies subject to joint control, reference should be made to Part B of the Notes to the consolidated financial statements (Section 7 - Investments in associates and companies subject to joint control). Lastly, for a description of the valuation techniques used to calculate fair value, see the discussion of this subject in the section on market risks of this document.

Quantitative disclosure

The tables below show the breakdown of the equity exposures according to their book classification. The figures represent the banking group exposures shown in the Group consolidated financial statements and exclude the values of all investments in fully consolidated companies.

Non-trading book: on-balance sheet equity exposures (*)

(millions of euro)

Exposure type/values	31.12.2020							
	Book value		Fair value		Realised gains/losses and impairments		Unrealised gains/losses recognised in the balance sheet	
	Level 1	Level 2/3	Level 1	Level 2/3	Gains	Losses	Plus (+)	Minus (-)
A. Investments in associates and companies subject to joint control (**)	-	1,996	-	X	80	-96	X	X
B. Financial assets measured at fair value through other comprehensive income	1,559	2,141	1,559	2,141	X	X	208	-317
C. Other financial assets mandatorily measured at fair value	10	384	10	384	24	-9	X	X
Exposure type/values	**31.12.2019**							
	Book value		**Fair value**		**Realised gains/losses and impairments**		**Unrealised gains/losses recognised in the balance sheet**	
	Level 1	Level 2/3	Level 1	Level 2/3	Gains	Losses	Plus (+)	Minus (-)
A. Investments in associates and companies subject to joint control (**)	-	1,240	-	X	81	-28	X	X
B. Financial assets measured at fair value through other comprehensive income	611	2,448	611	2,448	X	X	309	-134
C. Other financial assets mandatorily measured at fair value	2	274	2	274	18	-1	X	X

(*) This table provides figures pertaining exclusively to the Banking Group.

(**) For Investments, the fair value refers to listed investments only (level 1).

Lastly, the table below shows a sensitivity analysis of the banking book to price risk, measuring the impact on Shareholders' Equity of a price shock of ±10% for the quoted assets recorded in the HTCS category.

Non-trading book: impact on shareholders' equity of price risk as at 31 December 2020

(millions of euro)

		1st quarter 2020 impact on shareholders' equity at 31.03.2020	2nd quarter 2020 impact on shareholders' equity at 30.06.2020	3rd quarter 2020 impact on shareholders' equity at 30.09.2020	4th quarter 2020 impact on shareholders' equity at 31.12.2020	Impact on shareholders' equity at 31.12.2019
Price shock	10%	49	141	159	155	50
Price shock	-10%	-49	-141	-159	-155	-50

Non-trading book: equity exposures - weighted values

(millions of euro)

	Weighted exposure	
	31.12.2020	31.12.2019
IRB approach	**31,659**	**30,919**
Equity exposures (Simple risk weight approach)	25,541	25,409
- Private equity exposures in sufficiently diversified portfolios	218	-
- Exchange-traded equity exposures	94	259
- Other equity exposures	25,229	25,150
Equity exposures (PD/LGD approach)	2,410	4,004
Equity exposures (Exposures subject to fixed weighting factors)	3,708	1,506
Standardised approach	**6,254**	**2,460**

The standardised approach includes the contribution from the UBI Group of 3.7 billion euro. For further details regarding the geographical breakdown, and the concentration per sector or type of counterparty, of the equity exposures, see Section 6 of this document.

Section 16 - Interest rate risk on positions not included in the trading book

Qualitative disclosure

Interest rate risk

Market risk originated by the banking book arises primarily from the exposure to assets, liabilities and off-balance sheet transactions sensitive to interest rates (interest rate risk) assumed by the Parent Company and the other main Group companies involved in credit activity (retail and corporate banking). The banking book also includes exposure to market risks deriving from the equity investments in listed companies not fully consolidated, mainly held by the Parent Company.

The internal system for measuring interest rate risk assesses and describes the effect of changes in interest rates on the economic value and the net interest income and identifies all significant sources of risk that affect the banking book:

- repricing risk: risk arising from maturity mismatches (for fixed-rate positions) and interest rate revision date mismatches (for floating-rate positions) of financial items due to parallel movements in the yield curve;
- yield curve risk: risk arising from maturity mismatches and interest rate revision date mismatches due to changes in the inclination and shape of the yield curve;
- basis risk: risk arising from imperfect correlation in the adjustment of lending and deposit rates of floating-rate instruments which may differ according to indexing parameters, rate revision method, indexing algorithm, etc. This risk arises as a result of non-parallel changes in market rates;
- option risk: risk due to the presence of automatic options or options that depend on the behaviour of the counterparty to the assets, liabilities and off-balance sheet instruments of the Group.

Interest rate risk is managed by setting limits and an early warning level for the exposure, approved within the Risk Appetite Framework (RAF). In particular, the early warning level allows monitoring of the exposure to the risk of bends in the curve. The Financial and Market Risks Head Office Department performs monthly checks that the limits and early warning level approved in the Risk Appetite Framework (RAF) are observed at the consolidated and individual level.
In addition, the Group has adopted a specific internal policy document regarding interest rate risk (the IRRBB Guidelines) subject to approval by the BoD, which governs the Group's entire interest rate risk management framework and in particular the aspects of governance, methods of use and formulation of scenarios.

The following metrics are used to measure the interest rate risk generated by the banking book:

1. with regard to economic value:
    - fair value shift sensitivity (∆EVE);
    - fair value basis risk (BR);
    - value at risk (VaR).
2. with regard to net interest income:
    - net interest income sensitivity (∆NII);
    - net interest income basis risk.

The shift sensitivity of the economic value (or fair value shift sensitivity) measures the change in the economic value of the banking book and is calculated at individual cash flow level for each financial instrument, based on different instantaneous rate shocks and based on historical stress simulations aimed at identifying the worst and best cases. It reflects the changes in the present value of the cash flows of the positions already in the balance sheet for the entire remaining duration until maturity (run-off balance sheet). The cash flows used to determine the present value are developed at the contractual rate, FTP (internal fund transfer price) or risk-free rate (Euribor/Libor) and discounted according to risk-free discount curves. When calculating the present value of loans, the expected loss component is considered; it represents the amount of cash flow that the bank does not expect to recover on a given exposure and that thus reduces the value of the loan. The present value of the loan adjusted for credit risk is calculated for this purpose by deducting the corresponding level of expected loss from expected cash flows according to the "cash flow adjustment" ("CFA") method.
To control the exposure and monitor the limits, the calculation involves determining the algebraic sum of the equivalent in euro of the shift sensitivities of the positions in the various currencies by applying a parallel shock of +100 bps to the interest rate curves in the various currencies. The calculation for non-parallel shocks for the purposes of controlling the exposure and monitoring the early warning level is performed similarly. The sensitivity of the relevant currencies is then corrected, according to a "currency aggregation" management technique, to take account of the imperfect correlation with the rates of the main currency (the euro).

The fair value basis risk (BR) is a risk measure designed to capture the effect on the floating-rate banking book caused by the imperfect correlation of changes in market indices. The method of estimating fair value basis risk is based on applying shocks, diversified by the curve of reference of the main risk factors. The specific shock level is calculated as a change in the base of each reference rate compared to a designated pivot rate in the same currency.

Value at Risk (VaR) measures the maximum loss that could occur within a given time horizon (holding period) and with a given confidence level. VaR is determined by adopting a 99%[36] confidence level and a holding period of ten days. VaR is estimated using a method based on the historical simulation of the risk factors, represented by the risk-free market interest rate curves, in which the bank's exposure is revalued (full evaluation) on the basis of the curves observed over the last 250 days prior to the evaluation date.

The sensitivity of net interest income quantifies the impact on interest income of shock to the interest rate curve. For managerial monitoring of the limits, the sensitivity of net income is measured over a short-term horizon (12 months), excluding potential effects due to new transactions and future changes in the mix of assets and liabilities, by applying parallel, instantaneous interest rate shocks. The method implicitly assumes that the principal amounts of transactions upon reaching maturity or repricing are reinvested or refinanced through transactions with the same financial characteristics as those that have reached maturity (constant balance sheet assumption), within 12 months of the date of the analysis (date of the end-of-month situation). In addition, for the purposes of prospective simulation of interest income, dynamic analyses are performed, involving a change in the composition and volumes of assets and liabilities, by also applying non-parallel, non-instantaneous shocks, over medium-term time horizons (up to 3 years).

In calculating the above risk measures, Intesa Sanpaolo adopts behavioural models for representing capital items based on their contractual profile, except for categories of instruments whose risk profiles are different from those contractually envisaged. In this respect, therefore, the choice was made to use a behavioural representation to calculate the risk measures. More specifically:

- for mortgages, statistical techniques are used to determine the probability of prepayment, in order to reduce the Group's exposure to interest rate risk (overhedging) and to liquidity risk (overfunding). The method developed estimates prepayment coefficients diversified according to the type of customer, of the financial characteristics of the transaction, such as the loan rate type (fixed or floating), the original term of the loan and the seasoning, understood as the age of the loan on the date of the prepayment event. The analysis refers to partial repayments, full repayments and refinancing. The prepayment model also examines the reasons that lead customers to make prepayments. With regard to this aspect, the phenomenon may be divided into a structural component ("Core Prepayment") and a scenario component ("Coupon Incentive"), primarily linked to market variations. Prepayment phenomena are monitored monthly and the prepayment coefficients to be applied to the model are re-estimated at least annually and are subject to periodic backtesting, in accordance with the specific model change document;
- for core deposits, a financial representation model is adopted aimed at reflecting the behavioural features of stability of deposits and partial and delayed reaction to market interest rate fluctuations, in order to stabilise the value and net interest income both in absolute terms and in terms of variability over time.

In addition, within the framework of the dynamic simulation of net interest income, an additional behavioural model is adopted to simulate the effects of potential renegotiations of the contractual conditions of medium-/long-term assets. In terms of risks, renegotiations modify the duration of the portfolio of medium-/long-term loans and entail a decline in net interest income due to the revision of the contractual rates/spreads to include conditions more advantageous to customers. Specific models have been estimated to ensure a proper representation of the renegotiations phenomenon in terms of the percentages of mortgage loans renegotiated and their financial characteristics.

The scenarios underlying the measurement processes are defined in the IRRBB Guidelines and fall into the following categories:

- base scenarios: these are run on a monthly basis and involve:
  - fair value scenarios, which include different parallel and non-parallel parametric instantaneous shock scenarios. These scenarios, in addition to the base shock scenario expressed by a parallel increase or decrease of 100 bps at all maturities, include the non-parallel scenarios that highlight the risk arising from curve shifts (yield curve risk) that cannot be captured with parallel shocks alone. These scenarios are obtained in a manner consistent with the parameters for non-parallel shocks (steepener, flattener, short rate up and short rate down) set by the IRRBB Standards of the Basel Committee on Banking Supervision (below the BCBS shock) except for the proportionality coefficient applied to them in order to calibrate them to the management shock of 100 bps;
  - interest margin scenarios (shock +/-50 bps);
- management stress scenarios: run at least quarterly; the stress analyses used in the internal measurement system involve:
  - fair value stress scenarios (shock +/-200 bps, and a historical simulation of worst case shock);
  - net interest income stress scenarios (shock +/-100 bps);
  - dynamic net interest income stress scenarios (shock +/-200 bps, shock +/-100 bps and BCBS shock);
- regulatory scenarios: at the frequency required by the supervisory regulations or authorities. In particular, the results of the Supervisory Outlier Test (SOT) – introduced by the EBA Guidelines in terms of change in economic value (EVE) – are communicated to the supervisory authority within the short term exercise (STE). In July 2018, the EBA issued the new Guidelines for the management of interest rate risk deriving from assets not included in the trading book, implementing the Standards on interest rate risk in the banking book published by the Basel Committee on Banking Supervision (BCBS) in April 2016 and introducing a new threshold of 15% of Tier 1 as an early warning calculated on the basis of the six BCBS scenarios in addition to the limit of 20% of own funds established in Article 98(5) of CRD IV calculated on the basis of the two +200 bps and -200 bps scenarios. The limit and early warning together constitute the Supervisory Outlier Test (SOT), which is a supervisory instrument designed to inform supervisors of the exposure to interest rate risk of credit institutions.
  The SOT, as defined by EBA GL 2018/02, identifies the maximum loss resulting from:
  - application of the +/-200 bps shock to all currencies;

[36] Given the level of confidence chosen, the probability of losses greater than the VaR is 1% (1-level confidence).

- o application of the six scenarios set out in the IRRBB Standards of the Basel Committee on Banking Supervision (below the BCBS scenarios) and implemented in the EBA Guidelines: these scenarios require the application of specific shocks for each currency:
  - parallel shock up;
  - parallel shock down;
  - steepener shock (decrease in short-term rates and increase in long-term rates);
  - flattener shock (increase in short-term rates and decrease in long-term rates);
  - short rates shock up;
  - short rates shock down.

With regard to the changes in net interest income and the changes in economic value calculated using the management metrics, Intesa Sanpaolo, on a monthly basis, defines and verifies compliance with the limits and early warning.
The scenarios used for the verification of the limits are:
- for the control of the exposure in terms of ∆EVE: instantaneous and parallel shock of +100 bps;
- for the control of the exposure in terms of ∆NII: instantaneous and parallel shock of ±50 bps.

The scenarios used for the verification of the early warning are:
- 2 instantaneous and parallel shocks of ±100 bps;
- 4 non-parallel shocks represented by the BCBS scenarios calibrated to the management shock of +100 bps.

The currencies monitored for the consolidated limits are the Euro and the US Dollar ("material currency") for the measurement of ∆EVE.

Interest rate risk hedging is undertaken with the aim of protecting the banking book from variations in the fair value of loans and deposits due to movements in the interest rate curve or reducing the volatility of future cash flows related to a particular asset/liability. The main types of derivative contracts used are interest rate swaps (IRS), overnight index swaps (OIS), cross-currency swaps (CCS), forward sales of debt securities and options on interest rates concluded with third parties or with other Group companies. The latter, in turn, cover risk in the market so that the hedging transactions meet the criteria to qualify as IAS-compliant for consolidated financial statements.

Hedging activities performed by the Intesa Sanpaolo Group are recorded using various hedge accounting methods. A first method refers to the fair value hedge of specifically identified assets and liabilities (microhedging), mainly consisting of bonds issued or acquired by Group companies and loans to customers. In addition, in order to preserve the economic value of a portion of the HTCS portfolio, by protecting the price of the securities against adverse market movements, the Group negotiates forward sales of the debt securities held in portfolio on a fair value hedging basis. Finally, on the basis of the carved-out version of IAS 39, fair-value hedging is also applied for the macrohedging of the stable portion of demand deposits (core deposits) and on the already fixed portion of variable-rate loans and on a portion of fixed-rate loans. For this last type, an open-portfolio macrohedging model has been adopted according to a bottom-layer approach that, in accordance with the interest rate risk measurement method involving modelling of the prepayment phenomenon, is more closely correlated with risk management activity and asset dynamics. Another hedging method used is the cash flow hedge, which has the purpose of stabilising interest flow on both variable-rate funding, to the extent that the latter finances fixed-rate investments, and on variable-rate investments to cover fixed-rate funding (macro cash flow hedges).
The Financial and Market Risks Head Office Department of the Parent Company is in charge of measuring the effectiveness of interest rate risk hedges for the purpose of hedge accounting, in compliance with the IAS/IFRS.

Impacts from the COVID-19 pandemic

During 2020, management measures intervened in the banking book - such as cash flow hedging - to mitigate the potential negative impacts of COVID-19.

Quantitative disclosure

Interest rate risk

In 2020, interest rate risk generated by the Intesa Sanpaolo Group's banking book, measured through shift sensitivity of value, averaged -1,074 million euro, with a minimum value of -1,815 million euro and a maximum value of 297 million euro, reaching a figure of -1,305 million euro at the end of 2020 (394 million euro at the end of 2019).
The sensitivity of net interest income – assuming a +50, -50 and +100 basis point change in interest rates – amounted to 1,312 million euro, -1,011 million euro and 2,581 million euro, respectively, at the end of 2020. The last of these figures was up on the 1,837 million euro recorded at the end of 2019.
Interest rate risk, measured in terms of VaR, averaged 626 million euro in 2020, with a maximum value of 869 million euro and a minimum value of 271 million euro, reaching a figure of 492 million euro at the end of 2020 (227 million euro at the end of 2019).
Foreign exchange risk expressed by equity investments in foreign currency (banking book) and measured in terms of VaR averaged 73 million euro in 2020, with a maximum value of 96 million euro and a minimum value of 35 million euro, standing at 78 million euro at the end of 2020 (35 million euro at the end of 2019).
Price risk generated by minority stakes in listed companies, mostly held in the HTCS category and measured in terms of VaR, recorded an average level during 2020 of 255 million euro, with maximum and minimum values of 419 million euro and 45 million euro, respectively, amounting to 304 million euro at the end of 2020 (43 million euro at the end of 2019).

The table below shows the changes in the main risk measures

(millions of euro)

Risk Measures	2020			31.12.2020	31.12.2019
	Average	Minimum	Maximum		
Shift Sensitivity of the Economic Value +100 bp	-1,074	-1,815	297	-1,305	394
Shift Sensitivity of Net Interest Income -50bp	-944	-1,016	-847	-1,011	-1,037
Shift Sensitivity of Net Interest Income +50bp	1,076	847	1,362	1,312	939
Shift Sensitivity of Net Interest Income +100bp	2,102	1,634	2,692	2,581	1,837
Value at Risk - Interest Rate	626	271	869	492	227
Value at Risk Exchange	73	35	96	78	35
Value at Risk - Equity investments in listed companies	255	45	419	304	43

Exposures as at 31 December 2020 shown in the table include the metrics of the UBI Group harmonised using the methodologies used by Intesa Sanpaolo, which provide a slight contribution to the overall risk of the Intesa Sanpaolo Group.

Section 17 - Encumbered and unencumbered assets

Qualitative disclosure

The total book value of the "encumbered" assets and the reused guarantees received, compared to total assets and the collateral received, measures the "level of encumbrance" on the assets, i.e. the so-called "asset encumbrance ratio". The Supervisory Authorities, Rating Agencies and investors recently increased the attention to the risk of asset encumbrance, which may lead to greater subordination of unsecured creditors and, in the event of an increase in the asset encumbrance ratio, also to greater potential liquidity risks in case of stress.
In the course of its operations, the Intesa Sanpaolo Group carries out a number of transactions involving the encumbrance of own assets or assets received as collateral. Among the main transactions of this type are:

- repurchase agreements and securities lending;
- assets used against covered bond issues;
- underlying assets of securitisation structures, in which the financial assets have not been derecognised;
- collateralisation agreements such as, for example, collateral given in respect of the market value of derivatives;
- collateralised financial guarantees;
- collateral deposited with clearing systems, with central counterparties (CCPs) and other infrastructure institutions as a condition for access to the service (including incremental and initial margins);
- instruments given as collateral in several respects, for funding from central banks or multilateral development banks.

These types of activities are carried out either to allow the Group to access forms of funding considered favourable at the time a transaction is finalised or because the provision of collateral is the standard condition to access specific markets or types of activities (for example, in transactions with central counterparties). In particular, the guarantees provided in connection with the refinancing operations at the European Central Bank amount to approximately 100 billion euro for the owned assets recognised.
The transactions involving encumbered assets are carried out mainly by the Parent Company, also as regards the settlement and trading of derivative contracts carried out within the framework of the centralised services also provided to the other banks of the Group.

For information on the issue of covered bonds, please see the Notes to the consolidated financial statements, under the specific point of Part E: "Covered bond transactions".

The Intesa Sanpaolo Group measures the level of encumbrance of its assets by adopting the rules set by the "Implementing Technical Standards" published by the European Banking Authority (EBA); starting from 31 December 2014 this information is subject to specific reporting to the Supervisory Authorities.
The scope of consolidation used to define the eligibility of the EHQLA and HQLA liabilities used for disclosure on encumbered assets and the application of liquidity requirements is the entire scope of consolidation of the companies belonging to the Banking Group, for both types of disclosure.
The share of encumbered assets is subject to periodic disclosure to the Board of the Parent Company, which has also established an alert threshold when defining the Risk Appetite Framework (RAF), with the aim of preventing any excessive increase in the risk connected to the share of encumbered assets.
At the same time, considering this measure, the Group monitors the unencumbered assets by assessing both the Reserves already promptly available, and the availability of new assets usable in the short-term, according to the Contingency Funding Plan and Recovery Plan.

Quantitative disclosure

Based on the regulations issued by the EBA as a result of the provisions of the CRR (Art. 443), the institutions must indicate the amount of encumbered or unencumbered assets by type of activity. "Encumbered" assets are on-balance sheet assets that have been provided as pledge or sold and not derecognised, or otherwise encumbered, as well as the guarantees received that meet the conditions for recognition in the financial statements of the transferee. The information published on the subject of encumbered and unencumbered assets is calculated based on median values of quarterly data on a rolling basis during the previous twelve months.

Encumbered and unencumbered assets as at 31 December 2020

(millions of euro)

	Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
	Total	*of which notionally eligible EHQLA and HQLA*	**Total**	*of which notionally eligible EHQLA and HQLA*	**Total**	*of which EHQLA and HQLA*	**Total**	*of which EHQLA and HQLA*
Assets of the reporting institution	195,029	*20,616*	X	*X*	568,230	*104,680*	X	*X*
Equity instruments	176	*134*	X	*X*	7,566	*208*	X	*X*
Debt securities	27,533	*20,482*	28,144	*20,427*	107,546	*73,816*	106,556	*73,295*
of which: covered bonds	*319*	-	*320*	-	*2,623*	-	*2,624*	-
of which: asset-backed securities	*1,747*	-	*1,726*	-	*4,107*	-	*3,907*	-
of which: issued by general governments	*21,657*	*19,280*	*22,345*	*19,226*	*80,350*	*66,155*	*79,584*	*65,798*
of which: issued by financial corporations	*4,582*	*596*	*4,531*	*598*	*21,283*	*5,392*	*20,784*	*5,224*
of which: issued by non-financial corporations	*1,198*	*606*	*1,153*	*603*	*4,242*	*2,269*	*4,119*	*2,273*
Other assets	160,811	-	X	*X*	452,306	-	X	*X*
of which: loans on demand	*13,161*	-	*X*	*X*	*44,276*	*30,656*	*X*	*X*
of which: loans other than loans on demand	*147,623*	-	*X*	*X*	*307,839*	-	*X*	*X*
of which: other	*200*	-	*X*	*X*	*86,970*	-	*X*	*X*

Access to the secured market represents an important source of medium/long-term funding (Covered Bonds, ABS and TLTRO). In 2020, we did not raise any funds through covered bonds placed on the market. Except for 2020, the funding obtained through those instruments represents, on average, 12% of the annual wholesale funding.
As mentioned in the previous paragraph, the most important forms of encumbrance on the Group's part concern: repurchase transactions, TLTRO, derivative instruments, covered bonds, ABS, loans eligible with the Bank of Italy (Abaco), and collateralised loan agreements concluded with supranational entities.
The maximum level of contractual overcall for the Covered Bonds programmes is 7.53%. In any case, the Bank always maintains a higher level of overcall in order to hedge any negative events that could impact the programme's underlying assets (average level of overcall in 2020 of around 17%). The Bank is party to guarantee contracts with supranational entities; should certain events occur, it may be necessary to increase the amount of collateral supplied to those entities.
At the end of 2020, unencumbered assets - net of the financial statement components that cannot be committed - amounted to approximately 524 billion euro (at book value), 195 billion euro of which were immediately available for use as highly liquid reserves and/or reserves eligible with Central Banks.
As described previously herein, the Intesa Sanpaolo Group operates primarily in euro. There are encumbered assets denominated in US dollars, mainly referring to short-term repurchase agreement.

Information on the guarantees received by type of assets is also provided hereunder.

Guarantees received as at 31 December 2020

(millions of euro)

	Fair value of encumbered collateral received or own debt securities issued		Fair value of collateral received or own debt securities issued available for encumbrance	
	Total	*of which notionally eligible EHQLA and HQLA*	**Total**	*of which EHQLA and HQLA*
Collateral received by the reporting institution	13,539	*10,759*	23,826	*10,162*
Loans on demand	-	-	4	-
Equity instruments	195	*143*	180	*23*
Debt securities	12,923	*10,616*	15,238	*10,139*
of which: covered bonds	*-*	-	*-*	-
of which: asset-backed securities	*181*	-	*1,347*	-
of which: issued by general governments	*11,916*	*10,598*	*12,356*	*10,127*
of which: issued by financial corporations	*592*	*5*	*2,450*	*2*
of which: issued by non-financial corporations	*34*	*14*	*322*	*10*
Loans and advances other than loans on demand	-	-	416	-
Other collateral received	365	-	8,180	-
Own debt securities issued other than own covered bonds or asset-backed securities	218	-	35,027	-
Own covered bonds and asset-backed securities issued and not yet pledged	X	*X*	12,779	-
TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	195,029	-	X	*X*

Finally, the details of liabilities associated with the received encumbered assets or guarantees are stated below.

Sources of encumbrance as at 31 December 2020

(millions of euro)

	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	154,742	190,787
Derivatives	18,376	19,896
of which: Over-The-Counter	*18,376*	*19,896*
Deposits	114,642	135,822
Repurchase agreements	17,309	17,362
of which: Central banks	*122*	*127*
Collateralised deposits other than repurchase agreements	89,150	113,358
of which: Central banks	*76,972*	*99,121*
Issued debt securities	17,966	27,746
of which: issued covered bonds	*17,966*	*27,746*
of which: issued Asset-backed securities	-	-

Section 18 - Leverage ratio

Qualitative disclosure

Under the Basel 3 prudential regulations, the Leverage ratio entered definitively into effect on 1 January 2015. The Leverage ratio measures the degree to which Tier 1 Capital covers the Banking Group's total exposure. The ratio is calculated by considering off-balance sheet exposures and assets. The objective of the indicator is to contain the degree of indebtedness on banks' accounts by establishing a minimum level of coverage of exposures with equity. The ratio, which is monitored by the authorities, is expressed in percent form and is subject to a regulatory minimum threshold of 3% (the Basel Committee's reference value).
The Leverage ratio is calculated quarterly. The indicator is monitored at both the individual and Banking Group level.
The Leverage ratio is calculated as the ratio of Tier 1 Capital to total exposure. Focusing on the denominator of the ratio, total exposure includes on-balance sheet exposures, net of any components deducted from Tier 1 Capital, and off-balance sheet exposures.
In view of the provisions of Decision (EU) 2020/1306 of the European Central Bank, which determines the existence of exceptional circumstances, from the reporting date of 31 December 2020 the Intesa Sanpaolo Group has applied the provisions of Article 500b of Regulation (EU) 873/2020, which allow for the temporary exclusion of certain exposures to central banks from the total exposure measure in view of the COVID-19 pandemic.

Description of the processes used to manage the risk of excessive leverage

The Intesa Sanpaolo Group shares the regulatory indication of monitoring and containing a leverage ratio to integrate the capital ratios based on risk, and acknowledges their usefulness in order to limit the excessive accumulation of leverage in the banking system, and especially to provide supplementary control against model risk and the possible related measurement errors.
Accordingly, the Leverage ratio is given a high attention and, as such, it has been selected as a reference metric within the scope of the Risk Appetite Framework for the control of the overall risk and, more specifically, of the Group's capital adequacy. In this regard, it is noted that the governance of the Risk Appetite Framework includes particularly strict escalation mechanisms in the event of breach of the Group's leverage limit, with the requirement for the Board of Directors to rapidly approve a remediation plan that can have a maximum duration of one year.
In line with the previous year, the 2020 RAF update confirmed both the choice to define its limit by adding a stress buffer to the regulatory minimum of 3% and the decision to also set an early warning threshold quantified based on an additional prudential buffer. In line with the limit established at Group level, the individual leverage ratio limits have also been set for the subsidiaries Banca IMI (merged into the Parent Company in 2020), UBI Banca, Fideuram-ISPB Group and for the Group's international subsidiary banks (both those belonging to the International Subsidiary Banks Division and those within the scope of the IMI Corporate & Investment Banking Division). In this regard, it is noted that the governance of the Risk Appetite Framework establishes specific escalation mechanisms for the Group companies, so in the event of breach of the individual leverage limits, the Body with strategic supervision function of the company concerned to rapidly approve a remediation plan that can have a maximum duration of one year, and there is also the obligation to involve the competent Parent Company structures.
Compliance with these limits is monitored in the Risks Tableau de Bord and reported to the Risk Committee and the Board of Directors on a quarterly basis.
Lastly, it is noted that the Group has one of the best leverage ratios in comparison to the main European banking groups and, in view of the operations carried out, the management of the risk of excessive leverage, although it is subject to the utmost attention from Top Management, is not a significant constraint for the Group's strategic planning.

Description of the factors that had an impact on the Leverage ratio during the period

During the year, both aggregates that determine the leverage ratio were affected by the acquisition of the former UBI Group, in the second half of the year, recording increases. More specifically:

- the increase in capital level (Tier 1 capital) was attributable to various effects, details of which are provided in the Section relating to Own Funds of this document together with an analysis of the breakdown of the Tier 1 capital;
- the increase in Total exposure was due to:
  a) a rise in on-balance sheet exposures (excluding Securities Financing Transactions - SFTs and derivatives), mainly attributable to the increase in exposures to corporates, retail exposures, other exposures and other assets of the trading book;
  b) an increase in off-balance sheet transactions and derivatives.

  It should also be noted that – again with an incremental effect for the overall Exposure - the methods for determining the measurement of the overall exposure of the leverage ratio during the transitional period, following a Q&A published in 2019, were extended to exposures subject to internal models (IRB) for the purposes of credit risk, thus adopting the same scaling factor already applied to standard exposures in line with the aforementioned regulation.

  SFT exposures bucked the overall trend. In addition, certain exposures to central banks have been temporarily excluded from the total exposure in view of the COVID-19 pandemic, in accordance with the provisions of Article 500b of Regulation (EU) 873/2020.

Leverage ratio of the Intesa Sanpaolo Group

The disclosure of the Leverage ratio of the Intesa Sanpaolo Group as at 31 December 2020 is presented below, disclosed in accordance with the regulatory principles of the CRR and set out according to the provisions of Implementing Regulation (EU) 2016/200.
The ratio is expressed in percent form and is subject to the regulatory minimum threshold of 3% (the Basel Committee reference value). The Leverage ratio is indicated according to the transitional provisions.

Quantitative disclosure

LRCom table – Leverage ratio common disclosure

The table shows the leverage ratio and the breakdown of the total exposure into the main categories, according to the provisions of Article 451(1) (a, b, c) of the CRR.

(millions of euro)

	On-balance sheet exposures (excluding derivatives and SFTs)	**31.12.2020**	**31.12.2019**
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	768,556	581,331
2	(Asset amounts deducted in determining Tier 1 capital) - transitional regime	-9,141	-10,440
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**759,415**	**570,891**
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	9,939	9,998
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	13,579	13,197
EU-5a	Exposure determined under Original Exposure Method	-	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-16,056	-16,311
8	(Exempted CCP leg of client-cleared trade exposures)	-	-
9	Adjusted effective notional amount of written credit derivatives	57,647	55,625
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-55,315	-53,276
11	**Total derivatives exposures (sum of lines 4 to 10)**	**9,794**	**9,233**
	SFT exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	23,586	36,913
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-719	-9,173
14	Counterparty credit risk exposure for SFT assets	2,758	4,454
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	-	-
15	Agent transaction exposures	-	-
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	-	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**25,625**	**32,194**
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	288,906	236,495
18	(Adjustments for conversion to credit equivalent amounts)	-200,619	-166,032
19	**Other off-balance sheet exposures (sum of lines 17 and 18)**	**88,287**	**70,463**
	(Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet))		
EU-19a	(Exempted exposures in accordance with Article 429 (7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-	-
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-68,475	-
	Capital and total exposure measure		
20	**Tier 1 capital**	**58,556**	**45,638**
21	**Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**814,646**	**682,781**
	Leverage ratio		
22	**Leverage ratio**	**7.19%**	**6.68%**
EU-22a	**Leverage ratio (excluding the impact of any applicable temporary exemption of central bank exposures)**	**6.63%**	**n.a.**
	Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Transitional	Transitional
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	-	-

LRSum table - Summary reconciliation of accounting assets and leverage ratio exposure

The table shows the reconciliation between total exposure (the denominator of the ratio) and the information disclosed in the financial statements in accordance with the provisions of Article 451 (1) (b) of the CRR.

(millions of euro)

	Table of synthetic composition	31.12.2020	31.12.2019
1	Total assets as per published financial statements	1,002,614	816,102
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-176,355	-167,852
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 (CRR)	-	-
4	Adjustments for derivative financial instruments	-21,239	-20,198
5	Adjustment for securities financing transactions (SFTs)	2,052	-4,634
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	88,287	70,463
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013 (CRR))	-	-
EU-6b	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013 (CRR))	-68,475	-
7	Other adjustments (*)	-12,238	-11,100
8	**Leverage ratio total exposure measure**	**814,646**	**682,781**

(*) "Other adjustments" mainly include amounts related to assets deducted for the calculation of Tier 1 Capital (transitional regime).

LRSpl table – Split-up of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

For exposures other than derivatives and SFTs, the table provides a breakdown by counterparty, in accordance with the provisions of Article 451 (1) (b) of the CRR.

(millions of euro)

		CRR leverage ratio exposures	
		31.12.2020	31.12.2019
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**700,081**	**581,331**
EU-2	Trading book exposures	23,364	18,064
EU-3	Banking book exposures, of which:	676,717	563,267
EU-4	*Covered bonds*	*2,674*	*3,406*
EU-5	*Exposures treated as sovereigns*	*117,790*	*115,617*
EU-6	*Exposures to regional governments, local authorities, MDB, international organisations and PSE not treated as Sovereigns*	*11,569*	*12,470*
EU-7	*Institutions*	*48,652*	*43,039*
EU-8	*Secured by mortgages of immovable properties*	*157,416*	*116,765*
EU-9	*Retail exposures*	*55,773*	*41,730*
EU-10	*Corporate*	*193,462*	*151,840*
EU-11	*Exposures in default*	*13,249*	*14,842*
EU-12	*Other exposures (eg equity, securitisations, and other non-credit obligation assets)*	*76,132*	*63,558*

Declaration of the Manager responsible for preparing the Company's financial reports

The Manager responsible for preparing the Company's financial reports, Fabrizio Dabbene, declares, pursuant to par. 2 of art. 154-bis of the Consolidated Law on Finance, that the accounting information contained in this document "Basel 3 - Pillar 3 as at 31 December 2020" corresponds to the corporate records, books and accounts.

23 March 2021

Fabrizio Dabbene
Manager responsible for preparing
the Company's financial reports

Independent Auditors' Report on Basel 3 Pillar 3

KPMG S.p.A.
Revisione e organizzazione contabile
Via Vittor Pisani, 25
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Telefono +39 02 6763.1
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(Translation from the Italian original which remains the definitive version)

Independent auditors' report on the Basel 3 Pillar 3 disclosure

To the board of directors of
Intesa Sanpaolo S.p.A.

We have been engaged to perform a limited assurance engagement on the accompanying Basel 3 Pillar 3 disclosure (the "Pillar 3 disclosure") of the Intesa Sanpaolo Group (the "group") at 31 December 2020.

Directors' responsibility for the Pillar 3 disclosure

The directors of Intesa Sanpaolo S.p.A. (the "bank") are responsible for the preparation of the Pillar 3 disclosure in accordance with the provisions of part VIII of Regulation (EU) no. 575/2013 of 26 June 2013 (the "CRR"), implemented in Italy through Bank of Italy Circular no. 285 of 17 December 2013 and subsequent amendments.

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Pillar 3 disclosure that is free from material misstatement, whether due to fraud or error.

Auditors' independence and quality control

We are independent in compliance with the independence and all other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Our company applies International Standard on Quality Control 1 (ISQC Italia 1) and, accordingly, maintains a system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

KPMG S.p.A. è una società per azioni di diritto italiano e fa parte del network KPMG di entità indipendenti affiliate a KPMG International Limited, società di diritto inglese.

Ancona Bari Bergamo
Bologna Bolzano Brescia
Catania Como Firenze Genova
Lecce Milano Napoli Novara
Padova Palermo Parma Perugia
Pescara Roma Torino Treviso
Trieste Varese Verona

Società per azioni
Capitale sociale
Euro 10.415.500,00 i.v.
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R.E.A. Milano N. 512867
Partita IVA 00709600159
VAT number IT00709600159
Sede legale: Via Vittor Pisani, 25
20124 Milano MI ITALIA

Auditors' responsibility

Our responsibility is to express a conclusion, based on the procedures performed, about the compliance of the Pillar 3 disclosure with the requirements of part VIII of the CRR implemented in Italy through Bank of Italy's Circular no. 285 of 17 December 2013 and subsequent amendments. We carried out our work in accordance with the criteria established by "International Standard on Assurance Engagements 3000 (revised) - Assurance Engagements other than Audits or Reviews of Historical Financial Information" ("ISAE 3000 revised"), issued by the International Auditing and Assurance Standards Board (IAASB) applicable to limited assurance engagements. This standard requires that we plan and perform the engagement to obtain limited assurance about whether the Pillar 3000 disclosure is free from significant non-conformities with the requirements of part VIII of the CRR implemented in Italy through Bank of Italy's Circular no. 285 of 17 December 2013 and subsequent amendments. A limited assurance engagement is less in scope than a reasonable assurance engagement carried out in accordance with ISAE 3000 revised and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters and events that might be identified in a reasonable assurance engagement.

The procedures we performed on the Pillar 3 disclosure are based on our professional judgement and include inquiries, primarily of the bank's personnel responsible for the preparation of the information presented in the Pillar 3 disclosure, documental analyses, recalculations and other evidence gathering procedures, as appropriate.

Specifically, we carried out the following procedures:

- comparing the financial disclosures presented in the Pillar 3 disclosure to those included in the group's consolidated financial statements at 31 December 2020, on which we issued our report dated 24 March 2021 pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014;
- interviews and discussions with the bank's management to gather information on the IT, accounting and reporting systems used in preparing the Pillar 3 disclosure and on the processes and internal control procedures used to gather, combine, process and transmit data and information to the manager in charge of financial reporting for the preparation of the Pillar 3 disclosure;
- sample-based analyses of documentation supporting the preparation of the Pillar 3 disclosure to obtain evidence of the processes put in place to prepare the data and information presented therein;
- reading correspondence with the European Central Bank in relation to the authorisation process related to using internal models to calculate regulatory capital requirements;
- reading the reports issued by the internal auditing and internal validation departments on the management and internal control processes relevant for the preparation of the data and information presented in the Pillar 3 disclosure;
- obtaining the representation letter on the compliance of the Pillar 3 disclosure with Bank of Italy Circular no. 285 of 17 December 2013 and subsequent amendments and on the reliability and completeness of the information and data contained therein.

Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Pillar 3 disclosure of the Intesa Sanpaolo Group at 31 December 2020 has not been prepared, inall material respects, in accordance with part VIII f the CRR implemented in Italy through Bank of Italy Circular no. 285 of 17 December 2013 and subsequent amendments.

Other matters

This report has been prepared solely for the purposes described in the first paragraph. As such, it cannot be used for any other purposes, in whole or in part. We have not undertaken to update this report for events or circumstances that may occur after its issue date.

Milan, 24 March 2021

KPMG S.p.A.

(signed on the original)

Mario Corti
Director

Attachment 1

Own funds: Terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	IT0000072618
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Ordinary shares - Art. 28 CRR
8	Amount recognised in regulatory capital (€/mln)	37,528
9	Nominal amount of instrument: original amount in currency of issuance (mln)	N/A
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	N/A
9a	Issue price	N/A
9b	Redemption price	0
10	Accounting classification	Shareholders' equity
11	Original date of issuance	N/A
12	Perpetual or dated	N/A
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	N/A
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	N/A
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	US46115HAU14
3	Governing law(s) of the instrument	New York law, except for subordination provisions governed by Italian law.
	REGULATORY TREATMENT	
4	Transitional CRR rules	Additional Tier 1 capital
5	Post-transitional CRR rules	Additional Tier 1 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 52 CRR
8	Amount recognised in regulatory capital (€/mln)	881
9	Nominal amount of instrument: original amount in currency of issuance (mln)	1,000
	Nominal amount of instrument: original amount - currency of issuance	USD
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	884
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Shareholders' equity
11	Original date of issuance	17/09/2015
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date	17/09/2025 (and thereafter on each interest payment date)
	Contingent call dates and redemption amount	Regulatory and Tax Event
16	Subsequent call dates, if applicable	Early redemption exercisable on each interest payment date after 17/09/2025
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	7.70% (until first call date)
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	Fully discretionary. Moreover, payment of interest may be blocked by the Regulator anytime.
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	Yes
31	If write-down, write-down trigger(s)	Write-down of nominal capital if CET1 of Intesa Sanpaolo or Intesa Sanpaolo Group is below 5.125 pct.
32	If write-down, full or partial	Full or partial
33	If write-down, permanent or temporary	Temporary
34	If temporary write-down, description of write-up mechanism	If CET1 of ISP or the Group returns to 5.125 pct or above, the issuer may decide to revaluate the Nominal Capital within the limits of the Maximum Distributable Amount.
35	Position in subordination hierarchy in liquidation	Senior to Equity and subordinate to instruments having a lower subordination level (i.e. T2)
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS1346815787
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Additional Tier 1 capital
5	Post-transitional CRR rules	Additional Tier 1 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 52 CRR
8	Amount recognised in regulatory capital (€/mln)	1,246
9	Nominal amount of instrument: original amount in currency of issuance (mln)	1,250
	Nominal amount of instrument: original amount - currency of issuance	EUR
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	1,250
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Shareholders' equity
11	Original date of issuance	19/01/2016
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date	19/01/2021 (and thereafter on each interest payment date)
	Contingent call dates and redemption amount	Regulatory and Tax Event
16	Subsequent call dates, if applicable	Early redemption exercisable on each interest payment date after 19/01/2021
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	7% per annum, payable semi-annually (up to the first call date)
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	Fully discretionary. Moreover, payment of interest may be blocked by the Regulator anytime.
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	Yes
31	If write-down, write-down trigger(s)	Write-down of nominal capital if CET1 of Intesa Sanpaolo or Intesa Sanpaolo Group is below 5.125 pct.
32	If write-down, full or partial	Full or partial
33	If write-down, permanent or temporary	Temporary
34	If temporary write-down, description of write-up mechanism	If CET1 of ISP or the Group returns to 5.125 pct or above, the issuer may decide to revaluate the Nominal Capital within the limits of the Maximum Distributable Amount.
35	Position in subordination hierarchy in liquidation	Senior to Equity and subordinate to instruments having a lower subordination level (i.e. T2)
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS1548475968
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Additional Tier 1 capital
5	Post-transitional CRR rules	Additional Tier 1 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 52 CRR
8	Amount recognised in regulatory capital (€/mln)	1,247
9	Nominal amount of instrument: original amount in currency of issuance (mln)	1,250
	Nominal amount of instrument: original amount - currency of issuance	EUR
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	1,250
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Shareholders' equity
11	Original date of issuance	11/01/2017
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date	11/01/2027 (and thereafter on each interest payment date)
	Contingent call dates and redemption amount	Regulatory and Tax Event
16	Subsequent call dates, if applicable	Early redemption exercisable on each interest payment date after 11/01/2027
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	7.75% per annum, payable semi-annually (up to the first call date)
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	Fully discretionary. Moreover, payment of interest may be blocked by the Regulator anytime.
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	Yes
31	If write-down, write-down trigger(s)	Write-down of nominal capital if CET1 of Intesa Sanpaolo or Intesa Sanpaolo Group is below 5.125 pct.
32	If write-down, full or partial	Full or partial
33	If write-down, permanent or temporary	Temporary
34	If temporary write-down, description of write-up mechanism	If CET1 of ISP or the Group returns to 5.125 pct or above, the issuer may decide to revaluate the Nominal Capital within the limits of the Maximum Distributable Amount.
35	Position in subordination hierarchy in liquidation	Senior to Equity and subordinate to instruments having a lower subordination level (i.e. T2)
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS1614415542
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Additional Tier 1 capital
5	Post-transitional CRR rules	Additional Tier 1 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 52 CRR
8	Amount recognised in regulatory capital (€/mln)	744
9	Nominal amount of instrument: original amount in currency of issuance (mln)	750
	Nominal amount of instrument: original amount - currency of issuance	EUR
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	750
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Shareholders' equity
11	Original date of issuance	16/05/2017
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date	16/05/2024 (and thereafter on each interest payment date)
	Contingent call dates and redemption amount	Regulatory and Tax Event
16	Subsequent call dates, if applicable	Early redemption exercisable on each interest payment date after 16/05/2024
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	6.25% per annum, payable semi-annually (up to the first call date)
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	Fully discretionary. Moreover, payment of interest may be blocked by the Regulator anytime.
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	Yes
31	If write-down, write-down trigger(s)	Write-down of nominal capital if CET1 of Intesa Sanpaolo or Intesa Sanpaolo Group is below 5.125 pct.
32	If write-down, full or partial	Full or partial
33	If write-down, permanent or temporary	Temporary
34	If temporary write-down, description of write-up mechanism	If CET1 of ISP or the Group returns to 5.125 pct or above, the issuer may decide to revaluate the Nominal Capital within the limits of the Maximum Distributable Amount.
35	Position in subordination hierarchy in liquidation	Senior to Equity and subordinate to instruments having a lower subordination level (i.e. T2)
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS2124980256
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Additional Tier 1 capital
5	Post-transitional CRR rules	Additional Tier 1 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 52 CRR
8	Amount recognised in regulatory capital (€/mln)	744
9	Nominal amount of instrument: original amount in currency of issuance (mln)	750
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	750
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Shareholders' equity
11	Original date of issuance	27/02/2020
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date	27/02/2030 (and thereafter on each interest payment date)
	Contingent call dates and redemption amount	Regulatory and Tax Event
16	Subsequent call dates, if applicable	Early redemption exercisable on each interest payment date after 27/02/2030
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	4.125% per annum, payable semi-annually (up to the first call date)
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	Fully discretionary. Moreover, payment of interest may be blocked by the Regulator anytime.
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	Yes
31	If write-down, write-down trigger(s)	Write-down of nominal capital if CET1 of Intesa Sanpaolo or Intesa Sanpaolo Group is below 5.125 pct.
32	If write-down, full or partial	Full or partial
33	If write-down, permanent or temporary	Temporary
34	If temporary write-down, description of write-up mechanism	If CET1 of ISP or the Group returns to 5.125 pct or above, the issuer may decide to revaluate the Nominal Capital within the limits of the Maximum Distributable Amount.
35	Position in subordination hierarchy in liquidation	Senior to Equity and subordinate to instruments having a lower subordination level (i.e. T2)
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS2124979753
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Additional Tier 1 capital
5	Post-transitional CRR rules	Additional Tier 1 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 52 CRR
8	Amount recognised in regulatory capital (€/mln)	737
9	Nominal amount of instrument: original amount in currency of issuance (mln)	750
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	750
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Shareholders' equity
11	Original date of issuance	27/02/2020
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date	27/02/2025 (and thereafter on each interest payment date)
	Contingent call dates and redemption amount	Regulatory and Tax Event
16	Subsequent call dates, if applicable	Early redemption exercisable on each interest payment date after 27/02/2025
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	3.75% per annum, payable semi-annually (up to the first call date)
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	Fully discretionary. Moreover, payment of interest may be blocked by the Regulator anytime.
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	Yes
31	If write-down, write-down trigger(s)	Write-down of nominal capital if CET1 of Intesa Sanpaolo or Intesa Sanpaolo Group is below 5.125 pct.
32	If write-down, full or partial	Full or partial
33	If write-down, permanent or temporary	Temporary
34	If temporary write-down, description of write-up mechanism	If CET1 of ISP or the Group returns to 5.125 pct or above, the issuer may decide to revaluate the Nominal Capital within the limits of the Maximum Distributable Amount.
35	Position in subordination hierarchy in liquidation	Senior to Equity and subordinate to instruments having a lower subordination level (i.e. T2)
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS2223762381
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Additional Tier 1 capital
5	Post-transitional CRR rules	Additional Tier 1 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 52 CRR
8	Amount recognised in regulatory capital (€/mln)	745
9	Nominal amount of instrument: original amount in currency of issuance (mln)	750
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	750
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Shareholders' equity
11	Original date of issuance	01/09/2020
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date	01/03/2028 (and thereafter on each interest payment date)
	Contingent call dates and redemption amount	Regulatory and Tax Event
16	Subsequent call dates, if applicable	Early redemption exercisable on each interest payment date starting from 1/03/2028 and thereafter on each interest payment date
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	5.5% per annum, payable semi-annually (up to the first call date)
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	Fully discretionary. Moreover, payment of interest may be blocked by the Regulator anytime.
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	Yes
31	If write-down, write-down trigger(s)	Write-down of nominal capital if CET1 of Intesa Sanpaolo or Intesa Sanpaolo Group is below 5.125 pct.
32	If write-down, full or partial	Full or partial
33	If write-down, permanent or temporary	Temporary
34	If temporary write-down, description of write-up mechanism	If CET1 of ISP or the Group returns to 5.125 pct or above, the issuer may decide to revaluate the Nominal Capital within the limits of the Maximum Distributable Amount.
35	Position in subordination hierarchy in liquidation	Senior to Equity and subordinate to instruments having a lower subordination level (i.e. T2)
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS2223761813
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Additional Tier 1 capital
5	Post-transitional CRR rules	Additional Tier 1 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 52 CRR
8	Amount recognised in regulatory capital (€/mln)	746
9	Nominal amount of instrument: original amount in currency of issuance (mln)	750
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	750
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Shareholders' equity
11	Original date of issuance	01/09/2020
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date	01/09/2031 (and thereafter on each interest payment date)
	Contingent call dates and redemption amount	Regulatory and Tax Event
16	Subsequent call dates, if applicable	Early redemption exercisable on each interest payment date starting from 1/9/2031 and thereafter on each interest payment date
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	5.875% per annum, payable semi-annually (up to the first call date)
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	Fully discretionary. Moreover, payment of interest may be blocked by the Regulator anytime.
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	Yes
31	If write-down, write-down trigger(s)	Write-down of nominal capital if CET1 of Intesa Sanpaolo or Intesa Sanpaolo Group is below 5.125 pct.
32	If write-down, full or partial	Full or partial
33	If write-down, permanent or temporary	Temporary
34	If temporary write-down, description of write-up mechanism	If CET1 of ISP or the Group returns to 5.125 pct or above, the issuer may decide to revaluate the Nominal Capital within the limits of the Maximum Distributable Amount.
35	Position in subordination hierarchy in liquidation	Senior to Equity and subordinate to instruments having a lower subordination level (i.e. T2)
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Unione di Banche Italiane S.p.A.
2	Unique identifier	XS2105110329
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Additional Tier 1 capital
5	Post-transitional CRR rules	Additional Tier 1 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 52 CRR
8	Amount recognised in regulatory capital (€/mln)	390
9	Nominal amount of instrument: original amount in currency of issuance (mln)	400
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	400
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Shareholders' equity
11	Original date of issuance	20/01/2020
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date	Any date from 20/01/2025 to 20/06/2025 (and thereafter on each interest payment date)
	Contingent call dates and redemption amount	Capital and Tax Event
16	Subsequent call dates, if applicable	Early redemption exercisable on each interest payment date after 20/06/2025
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	5.875% per annum, payable semi-annually (up to the first call date)
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	Fully discretionary. Moreover, payment of interest may be blocked by the Regulator anytime.
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	Yes
31	If write-down, write-down trigger(s)	Write-down of nominal capital if CET1 of UBI Banca is below 5.125 pct.
32	If write-down, full or partial	Full or partial
33	If write-down, permanent or temporary	Temporary
34	If temporary write-down, description of write-up mechanism	If CET1 of UBI Banca returns to 5.125 pct or above, the issuer may decide to revaluate the Nominal Capital within the limits of the Maximum Distributable Amount.
35	Position in subordination hierarchy in liquidation	Senior to Equity, pari passu with respect to other AT1 instruments and subordinate to instruments having a lower subordination level (i.e. T2)
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS0971213201
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2 capital
5	Post-transitional CRR rules	Tier 2 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	855
9	Nominal amount of instrument: original amount in currency of issuance (mln)	1,446
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	1,446
9a	Issue price	99
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	13/09/2013
12	Perpetual or dated	Dated
13	Original maturity date	13/09/2023
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	6.625%
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	US46115HAT41
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2 capital
5	Post-transitional CRR rules	Tier 2 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	1,225
9	Nominal amount of instrument: original amount in currency of issuance (mln)	2,000
	Nominal amount of instrument: original amount - currency of issuance	USD
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	1,466
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	26/06/2014
12	Perpetual or dated	Dated
13	Original maturity date	26/06/2024
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	5.017%
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS1109765005
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2 capital
5	Post-transitional CRR rules	Tier 2 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	1,080
9	Nominal amount of instrument: original amount in currency of issuance (mln)	1,000
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	1,000
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	15/09/2014
12	Perpetual or dated	Dated
13	Original maturity date	15/09/2026
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	3.928%
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS1222597905
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2 capital
5	Post-transitional CRR rules	Tier 2 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 486 CRR
8	Amount recognised in regulatory capital (€/mln)	454
9	Nominal amount of instrument: original amount in currency of issuance (mln)	500
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	500
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	23/04/2015
12	Perpetual or dated	Dated
13	Original maturity date	23/04/2025
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	2.855%
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured
36	Non-compliant transitioned features	NO
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	IT0005118838
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2 capital
5	Post-transitional CRR rules	Tier 2 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 486 CRR
8	Amount recognised in regulatory capital (€/mln)	228
9	Nominal amount of instrument: original amount in currency of issuance (mln)	782
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	782
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	30/06/2015
12	Perpetual or dated	Dated
13	Original maturity date	30/06/2022
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	3m Euribor + 237 bps
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	US46115HAW79
3	Governing law(s) of the instrument	New York law, except for subordination provisions governed by Italian law.
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2 capital
5	Post-transitional CRR rules	Tier 2 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	1,312
9	Nominal amount of instrument: original amount in currency of issuance (mln)	1,500
	Nominal amount of instrument: original amount - currency of issuance	USD
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	1,378
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	15/01/2016
12	Perpetual or dated	Dated
13	Original maturity date	15/01/2026
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	5.71% per annum, payable semi-annually
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, subordinated to Senior Unsecured
36	Non-compliant transitioned features	NO
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	IT0005279887
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2 capital
5	Post-transitional CRR rules	Tier 2 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	534
9	Nominal amount of instrument: original amount in currency of issuance (mln)	724
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	724
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	26/09/2017
12	Perpetual or dated	Dated
13	Original maturity date	26/09/2024
14	Issuer call subject to prior supervisory approval	NO
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	(3m EURIBOR + 1.90 bps) / 4
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, subordinated to Senior Unsecured
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	IT0005390833
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2 capital
5	Post-transitional CRR rules	Tier 2 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	155
9	Nominal amount of instrument: original amount in currency of issuance (mln)	160
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	160
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	11/12/2019
12	Perpetual or dated	Dated
13	Original maturity date	11/12/2026
14	Issuer call subject to prior supervisory approval	NO
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	1.98% fixed rate
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Except in case of bail-in, the loan shall be redeemed: i) only after fulfilment of the obligations towards all the Issuer's non-subordinated creditors (including the depositors) or those having a lower subordination level compared to the Bonds; ii) pari passu with the holders of all the Issuer's financial instruments having the same subordination level and with the Issuer's creditors having the same subordination level; iii) in any case, before the Issuer's shares and the other Tier 1 equity instruments.
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	IT0005390825
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2 capital
5	Post-transitional CRR rules	Tier 2 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	180
9	Nominal amount of instrument: original amount in currency of issuance (mln)	188
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	188
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	11/12/2019
12	Perpetual or dated	Dated
13	Original maturity date	11/12/2026
14	Issuer call subject to prior supervisory approval	NO
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	3-month Euribor + 206 bps/4
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Except in case of bail-in, the loan shall be redeemed: i) only after fulfilment of the obligations towards all the Issuer's non-subordinated creditors (including the depositors) or those having a lower subordination level compared to the Bonds; ii) pari passu with the holders of all the Issuer's financial instruments having the same subordination level and with the Issuer's creditors having the same subordination level; iii) in any case, before the Issuer's shares and the other Tier 1 equity instruments.
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS2185883100
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2 capital
5	Post-transitional CRR rules	Tier 2 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	377
9	Nominal amount of instrument: original amount in currency of issuance (mln)	350
	Nominal amount of instrument: original amount - currency of issuance	GBP
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	393
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	10/06/2020
12	Perpetual or dated	Dated
13	Original maturity date	10/06/2030
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	5.148% fixed rate
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Except in case of bail-in, the loan shall be redeemed: i) only after fulfilment of the obligations towards all the Issuer's non-subordinated creditors (including the depositors) or those having a lower subordination level compared to the Bonds; ii) pari passu with the holders of all the Issuer's financial instruments having the same subordination level and with the Issuer's creditors having the same subordination level; iii) in any case, before the Issuer's shares and the other Tier 1 equity instruments.
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	IT0005412264
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2 capital
5	Post-transitional CRR rules	Tier 2 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	300
9	Nominal amount of instrument: original amount in currency of issuance (mln)	309
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	309
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	29/06/2020
12	Perpetual or dated	Dated
13	Original maturity date	29/06/2027
14	Issuer call subject to prior supervisory approval	NO
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	3.75% fixed rate
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Except in case of bail-in, the loan shall be redeemed: i) only after fulfilment of the obligations towards all the Issuer’s non-subordinated creditors (including the depositors) or those having a lower subordination level compared to the Bonds; ii) pari passu with the holders of all the Issuer’s financial instruments having the same subordination level and with the Issuer’s creditors having the same subordination level; iii) in any case, before the Issuer’s shares and the other Tier 1 equity instruments.
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	IT0005412256
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2 capital
5	Post-transitional CRR rules	Tier 2 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	555
9	Nominal amount of instrument: original amount in currency of issuance (mln)	591
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	591
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	29/06/2020
12	Perpetual or dated	Dated
13	Original maturity date	29/06/2027
14	Issuer call subject to prior supervisory approval	NO
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	3-month Euribor + 405 bps/4
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Except in case of bail-in, the loan shall be redeemed: i) only after fulfilment of the obligations towards all the Issuer's non-subordinated creditors (including the depositors) or those having a lower subordination level compared to the Bonds; ii) pari passu with the holders of all the Issuer's financial instruments having the same subordination level and with the Issuer's creditors having the same subordination level; iii) in any case, before the Issuer's shares and the other Tier 1 equity instruments.
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	Temporary ISIN: XS2269310319, Definitive ISIN: XS2243298069
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2 capital
5	Post-transitional CRR rules	Tier 2 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	153
9	Nominal amount of instrument: original amount in currency of issuance (mln)	150
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	150
9a	Issue price	104,073 (plus accrued interest)
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	07/12/2020
12	Perpetual or dated	Dated
13	Original maturity date	14/10/2030
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	Annual fixed rate 2.925%
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Except in case of bail-in, the loan shall be redeemed: i) only after fulfilment of the obligations towards all the Issuer's non-subordinated creditors (including the depositors) or those having a lower subordination level compared to the Bonds; ii) pari passu with the holders of all the Issuer's financial instruments having the same subordination level and with the Issuer's creditors having the same subordination level; iii) in any case, before the Issuer's shares and the other Tier 1 equity instruments.
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS2243298069
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2 capital
5	Post-transitional CRR rules	Tier 2 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	322
9	Nominal amount of instrument: original amount in currency of issuance (mln)	350
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	350
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	14/10/2020
12	Perpetual or dated	Dated
13	Original maturity date	14/10/2030
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	Annual fixed rate 2.925%
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Except in case of bail-in, the loan shall be redeemed: i) only after fulfilment of the obligations towards all the Issuer's non-subordinated creditors (including the depositors) or those having a lower subordination level compared to the Bonds; ii) pari passu with the holders of all the Issuer's financial instruments having the same subordination level and with the Issuer's creditors having the same subordination level; iii) in any case, before the Issuer's shares and the other Tier 1 equity instruments.
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Unione di Banche Italiane S.p.A.
2	Unique identifier	XS1404902535
3	Governing law(s) of the instrument	English law except subordination clause (under Italian law)
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2 capital
5	Post-transitional CRR rules	Tier 2 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	734
9	Nominal amount of instrument: original amount in currency of issuance (mln)	750
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	750
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	05/05/2016
12	Perpetual or dated	Dated
13	Original maturity date	05/05/2026
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date	05/05/21
	Contingent call dates and redemption amount	05/05/2021; 100
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	Annual fixed rate 4.25% (until first call date)
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Unione di Banche Italiane S.p.A.
2	Unique identifier	XS1580469895
3	Governing law(s) of the instrument	English law except subordination clause (under Italian law)
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2 capital
5	Post-transitional CRR rules	Tier 2 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	433
9	Nominal amount of instrument: original amount in currency of issuance (mln)	500
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	500
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	05/03/2017
12	Perpetual or dated	Dated
13	Original maturity date	15/09/2027
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date	15/09/22
	Contingent call dates and redemption amount	15/09/2022; 100
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	Annual fixed rate 4.45% (until first call date)
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Unione di Banche Italiane S.p.A.
2	Unique identifier	XS1958656552
3	Governing law(s) of the instrument	English law except subordination clause (under Italian law)
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2 capital
5	Post-transitional CRR rules	Tier 2 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	481
9	Nominal amount of instrument: original amount in currency of issuance (mln)	500
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	500
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	04/03/2019
12	Perpetual or dated	Dated
13	Original maturity date	04/03/2029
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date	From 04/03/2024
	Contingent call dates and redemption amount	04/03/2024; 100
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	Annual fixed rate 5.875% (until first call date)
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Unione di Banche Italiane S.p.A.
2	Unique identifier	XS2026295126
3	Governing law(s) of the instrument	English law except subordination clause (under Italian law)
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2 capital
5	Post-transitional CRR rules	Tier 2 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	249
9	Nominal amount of instrument: original amount in currency of issuance (mln)	300
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	300
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	12/07/2019
12	Perpetual or dated	Dated
13	Original maturity date	12/07/2029
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date	12/07/24
	Contingent call dates and redemption amount	12/07/2024; 100
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	Annual fixed rate 4.375% (until first call date)
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

Attachment 2

Own funds: own funds disclosure template

(millions of euro)

		31.12.2020	31.12.2019	Reference article of Regulation (EU) 575/2013
Common Equity Tier 1 (CET1) capital: instruments and reserves				
1	Capital instruments and the related share premium accounts	37,528	34,161	26, paragraph 1, 27, 28, 29
	of which: instrument type 1	37,528	34,161	EBA list as per article 26 (3)
	of which: instrument type 2	-	-	EBA list as per article 26 (3)
	of which: instrument type 3	-	-	EBA list as per article 26 (3)
2	Retained earnings	20,673	16,511	26, paragraph 2(c)
3	Accumulated other comprehensive income (and other reserves)	-2,971	-2,918	26, paragraph 1, 27, 28, 29
3a	Funds for general banking risk	-	-	26, paragraph 1(f)
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase-out from CET1 capital	-	-	486, paragraph 2
5	Minority interests (amount allowed in consolidated CET1)	31	35	84
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	2,456	731	26, paragraph 2
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**57,717**	**48,520**	**Sum of rows from 1 to 5a**
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	-234	-282	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	-6,760	-8,012	36, paragraph 1(b), 37
9	Transitional adjustment related to IAS 19 and IFRS 9	2,129	2,590	Articles 473 and 473bis of Reg. 2395/2017
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-1,824	-1,360	36, paragraph 1(c), 38
11	Fair value reserves related to gains or losses on cash flow hedges	728	862	33, paragraph 1(a)
12	Negative amounts resulting from the calculation of expected loss amounts	-299	-316	36, paragraph 1(d), 40, 159
13	Any increase in equity that results from securitised assets (negative amount)	-	-	32, paragraph 1
14	Gains or losses on liabilities measured at fair value resulting from changes in own credit rating	212	61	33, paragraph 1(b)
15	Defined-benefit pension fund assets (negative amount)	-	-	36, paragraph 1(e), 41
16	Direct and indirect holdings by the institution of own CET1 instruments (negative amount)	-263	-230	36, paragraph 1(f), 42
17	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-	36, paragraph 1(g), 44
18	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	-	-	36, paragraph (1)(h), 43, 45, 46, 49 (2 and 3), 79
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	-	-	36, paragraph (1)(i), 43, 45, 47, 48(1)(b), 49 (1,2 and 3), 79
20	Other CET1 deduction items based on instructions from the National Authority	-232	-149	Circ. 285 of the Bank of Italy - Part 2 C.1 Sec.6 Guidelines
20a	Exposure amount of the following items which qualify for a risk weighting of 1250%, where the institution opts for the deduction alternative	-104	-142	36, paragraph 1(k)
20b	of which: qualifying holdings outside the financial sector (negative amount)	-	-	36, paragraph 1(k)(i), 89, 90, 91
20c	of which: securitisation positions (negative amount)	-104	-142	36, paragraph 1(k)(ii), 243 (1)(b), 244 (1)(b), 253
20d	of which: free deliveries (negative amount)	-	-	36, paragraph 1(k)(iii), 379 (3)
21	Deferred tax assets arising from temporary differences (amount above the 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-	-	36, paragraph 1(c), 38, 48 (1)(a)
22	Amount exceeding the 15% threshold (negative amount)	-	-	48, paragraph 1
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	-	36, paragraph (1)(i), 48(1)(b)
24	Empty field in the EU	-	-	
25	of which: deferred tax assets arising from temporary differences	-	-	36, paragraph 1(c), 38, 48 (1)(a)
25a	Losses for the current financial year (negative amount)	-	-	36, paragraph 1(a)
25b	Foreseeable tax charges relating to CET1 items (negative amount)	-	-	36, paragraph 1(l)
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-	-	36, paragraph 1(j)
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1) capital**	**-6,647**	**-6,978**	**Sum of rows from 7 to 20a, 21, 22 and from 25a to 27**
29	**Common Equity Tier 1 capital (CET1)**	**51,070**	**41,542**	**Row 6 less row 28**

(millions of euro)

		31.12.2020	31.12.2019	Reference article of Regulation (EU) 575/2013
Additional Tier 1 (AT1) capital: instruments				
30	Capital instruments and the related share premium accounts	7,480	4,091	51, 52
31	of which: classified as equity under applicable accounting standards	7,480	4,091	
32	of which: classified as liabilities under applicable accounting standards	-	-	
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase-out from AT1	-	-	486, paragraph 3
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	6	5	85, 86
35	of which: instruments issued by subsidiaries subject to phase-out	-	-	486, paragraph 3
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**7,486**	**4,096**	**Sum of rows 30, 33 and 34**
Additional Tier 1 (AT1) capital: regulatory adjustments				
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-	-	52, paragraph 1(b), 56 (a), 57
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-	56 (b), 58
39	Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	-	-	56 (c), 59, 60, 79
40	Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	-	-	56 (d), 59, 79
41	Empty field in the EU	-	-	
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-	-	56 (e)
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**-**	**-**	**Sum of rows from 37 to 42**
44	**Additional Tier 1 (AT1) capital**	**7,486**	**4,096**	**Row 36 less row 43**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**58,556**	**45,638**	**Sum of rows 29 and 44**
Tier 2 (T2) capital: instruments and provisions				
46	Capital instruments and the related share premium accounts	9,966	7,341	62, 63
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase-out from T2	-	-	486, paragraph 4
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	5	3	87, 88
49	of which: instruments issued by subsidiaries subject to phase-out	-	-	486, paragraph 4
50	Credit risk adjustments net of transitional adjustments related to IFRS 9	-	-	62 (c)(d) and Art. 473bis Reg. 2395/2017 (7)(c)
51	**Tier 2 (T2) capital before regulatory adjustments**	**9,971**	**7,344**	
Tier 2 (T2) capital: regulatory adjustments				
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-339	-100	63 (b)(i), 66 (a), 67
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-	66 (b), 68
54	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	-	-	66 (c), 69, 70, 79
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount	-255	-187	66 (d), 69, 79
56	Empty field in the EU	-	-	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**-594**	**-287**	**Sum of rows from 52 to 56**
Tier 2 (T2) capital: regulatory adjustments				
58	**Tier 2 (T2) capital**	**9,377**	**7,057**	**Row 51 less row 57**
59	**Total capital (TC = T1 + T2)**	**67,933**	**52,695**	**Sum of rows 45 and 58**
60	**Total risk-weighted assets**	**347,072**	**298,524**	

(millions of euro)

		31.12.2020	31.12.2019	Reference article of Regulation (EU) 575/2013
Capital ratios and buffers				
61	Common Equity Tier 1 capital (as a percentage of the risk exposure amount)	14.71%	13.92%	92, paragraph 2(a)
62	Tier 1 capital (as a percentage of the risk exposure amount)	16.87%	15.29%	92, paragraph 2(b)
63	Total capital (as a percentage of the risk exposure amount)	19.57%	17.65%	92, paragraph 2(c)
64	Institution-specific buffer requirement (CET1 requirement pursuant to Article 92 (1)(a), plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer, expressed as a percentage of risk exposure amount)	7.59%	7.46%	CRD 128, 129, 130, 131, 133
65	of which: capital conservation buffer requirement	2.50%	2.50%	
66	of which: countercyclical buffer requirement	0.03%	0.08%	
67	of which: systemic risk buffer requirement	-	-	
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0.56%	0.38%	
68	Common Equity Tier 1 capital available to meet capital buffers (as a percentage of total risk exposure amount)	7.12%	6.46%	CRD 128
69	[not relevant in EU regulation]			
70	[not relevant in EU regulation]			
71	[not relevant in EU regulation]			
Amounts below the deduction thresholds (before risk weighting)				
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below the 10% threshold and net of eligible short positions)	1,013	1,394	36(1)(h), 46, 45, 56 (c) 59, 60; 66 (c), 69, 70
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below the 10% threshold and net of eligible short positions)	2,983	784	36, paragraph 1(i), 45, 48
74	Empty field in the EU	-	-	
75	Deferred tax assets arising from temporary differences (amount below the 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	3,323	1,626	36, paragraph 1(c), 38, 48
Applicable caps on the inclusion of provisions in T2				
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-	-	62
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	-	62
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-	-	62
79	Cap on inclusion of credit risk adjustments in T2 under internal ratings-based approach	969	849	62
Capital instruments subject to phase-out arrangements (only applicable between 1 January 2014 and 1 January 2022)				
80	Current cap on CET1 instruments subject to phase-out arrangements	-	-	484 (3), 486 (2 and 5)
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	-	484 (3), 486 (2 and 5)
82	Current cap on AT1 instruments subject to phase-out arrangements	615	615	484 (4), 486 (3 and 5)
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	-	484 (4), 486 (3 and 5)
84	Current cap on T2 instruments subject to phase-out arrangements	1,418	1,418	484 (5), 486 (4 and 5)
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	-	484 (5), 486 (4 and 5)

Glossary

ABS – Asset-Backed Securities
Financial securities whose yield and redemption are guaranteed by a pool of assets (collateral) of the issuer (usually a Special Purpose Vehicle – SPV), exclusively intended to ensure satisfaction of the rights attached to said financial securities.
Examples of assets pledged as collateral include mortgages, credit card receivables, short-term trade receivables and auto loans.

ABS (receivables)
ABS whose collateral is made up of receivables.

Acquisition finance
Leveraged buy-out financing.

Additional return
Type of remuneration of the junior securities arising from securitisation transactions. In addition to a fixed dividend, such securities accrue periodic earnings (quarterly, semi-annual, etc.), whose amount is linked to the profit generated by the transaction (which in turn reflects the performance of the securitised assets).

Advisor
Financial broker assisting government authorities or companies involved in privatisation or other corporate finance transactions, whose tasks range from arranging appraisals to drawing up documents and providing general professional advice about specific transactions.

AIRB (Advanced Internal Rating Based) Approach
Approach to using internal ratings within the framework of the New Basel Accord, which provides for either the Foundation or the Advanced Approach. The Advanced Approach may be used only by institutions meeting more stringent requirements compared to the Foundation Approach. In this case, the Bank uses its own internal estimates for all inputs (PD, LGD, EAD and Maturity) for credit risk assessment, whereas for Foundation IRB it only estimates PD.

ALM – Asset & Liability Management
Integrated management of assets and liabilities designed to allocate the resources with a view to optimising the risk/yield ratio.

ALT-A Agency
Securities whose collateral consists of Alt-A mortgages, guaranteed by specialised Government Agencies.

ALT- A - Alternative A Loan
Residential mortgages generally of “prime” category, but which, due to various factors such as LTV ratio, documentation provided, borrower’s income/employment situation, type of property etc., cannot be classified as standard contracts usable in subscription programmes.
Incomplete documentation is the main reason for a loan being classified as “Alt-A”.

Alternative investment
Alternative investments comprise a wide range of investment products, including private equity and hedge funds (see definitions below).

Other related parties – close relatives
An individual’s “close relatives” comprise those family members likely to influence or be influenced by such individual in their relations with the entity. They include the individual’s non-separated spouse/domestic partner and the individual’s children, his/her spouse’s/domestic partner’s children, and the individual’s or his/her spouse’s/domestic partner’s dependents.

AP – Attachment Point
Level above which a protection seller will cover the losses of a protection buyer. It is typically used in synthetic CDOs.

Arrangement fee
A fee paid for professional advice and assistance provided in the loan structuring and arranging stage.

Arranger
In the structured finance sector, the arranger is the entity that – albeit in different forms and with different titles (mandated lead arranger, joint lead arranger, sole arranger etc.) – coordinates the organisational aspects of the transaction.

Asset allocation
The distribution of assets in an investment portfolio among different markets, geographical areas, sectors and products.

Asset management
The various activities relating to the management and administration of different customer assets.

AT1
Additional Tier 1 Capital (AT1). In general, the AT1 category includes equity instruments other than ordinary shares (which are eligible for Common Equity) and which meet the regulatory requirements for inclusion in that level of own funds (e.g. savings shares).

Intangible asset
An identifiable, non-monetary asset lacking physical substance.

Discounting
Process of determining the present value of a payment or payment flows to be received in the future

Audit
In listed companies, it indicates the various examinations of the business activities and bookkeeping of a company, performed by both in-house staff (internal audit) and independent audit firms (external audit).

AVA (Additional Valuation Adjustment)
Additional valuation adjustments necessary to adjust the fair value to the prudent value of the positions. To perform a prudent valuation of the positions measured at fair value, the EBA envisages two approaches for calculating the AVA (the Simplified approach and Core approach). The prudent valuation requirements apply to all positions measured at fair value regardless of whether they are held in the trading book or not, where the term 'positions' refers solely to financial instruments and commodities.

AUM Assets under management
Overall market value of assets such as deposits, securities and funds managed by the Group on behalf of customers

β
The beta coefficient of an issuer or a group of comparable issuers, an expression of the relationship between an equity's actual return and the total return of the market in question.

Back office
The unit of a bank or financial company that processes all the transactions performed by the operational units (front office).

Backtesting
Retrospective analyses performed to verify the reliability of the measurement of risk sources associated with different asset portfolios.

Banking book
Usually referred to securities or financial instruments in general, it identifies the portion of a portfolio dedicated to "proprietary" trading.

Basis swap
Contract providing for the exchange between two parties, of two floating-rate payments linked to a different index.

Best practice
It generally identifies conduct in line with state-of-the-art skills and techniques in a given technical/professional area.

Bid-ask spread
The difference between the buying and selling price of a given financial instrument or set of financial instruments.

Bookrunner
See Lead manager and Joint lead manager.

Brand name
IFRS 3 considers the "brand name" a potential, marketing related intangible asset, which may be recorded in the purchase price allocation process. The term "brand" is not used in accounting standards a restrictive sense as a synonym for "logo" and "name"; it is rather considered as a general marketing term which defines a set of complementary intangible assets (including, in addition to name and logo, the skills, the trust placed by the consumer, the quality of the services, etc.) which concur to form the so called "brand equity".

Budget
Forecast of cost and revenue performance of a company over a period of time.

Business combinations
In accordance with IFRS 3, a transaction or other event in which an acquirer obtains control of one or more company assets.

Business model
The business model within which financial assets are managed.
With regard to the business models, IFRS 9 identifies three cases relating to the way in which cash flows and sales of financial assets are managed: Hold to Collect (HTC), Hold to Collect and Sell (HTCS), Others/Trading.

CAGR (Compound Annual Growth Rate)
Compound annual growth rate of an investment over a specified period of time. If n is the number of years, the CAGR is calculated as follows: (Ending value/Beginning value)^(1/n) -1.

Capital Asset Pricing Model (CAPM)
An economic model for determining the "opportunity cost" i.e. the amount of income for the period necessary to remunerate the cost of capital.

Capital structure
It is the entire set of the various classes of bonds (tranches) issued by a special purpose vehicle (SPV), and backed by its asset portfolio, which have different risk and return characteristics, to meet the requirements of different categories of investors. Subordination relationships between the various tranches are regulated by a set of rules on the allocation of losses generated by the collateral:
Equity Tranche (B): the riskiest portion of the portfolio, it is also known as "first loss" and is subordinated to all other tranches; hence, it is the first to bear the losses which might occur in the recovery of the underlying assets.
Mezzanine Tranche (B): the tranche with intermediate subordination level between equity and senior tranches. The mezzanine tranche is normally divided into 2-4 tranches with different risk levels, subordinated to one another. They are usually rated in the range between BBB-AAA.

Senior/Supersenior Tranche (B): the tranche with the highest credit enhancement, i.e. having the highest priority claim on remuneration and reimbursement. It is normally also called super-senior tranche and, if rated, it has a rating higher than AAA since it is senior with respect to the AAA mezzanine tranche.

Captive
Term generically referring to “networks” or companies that operate in the exclusive interest of their parent company or group.

Carry trade
The carry trade is a financial transaction in which funds are procured in a country with a low cost of money and then invested in a country with high interest rates to take advantage of the difference in returns.

Securitisation
A transaction in which the risk associated with financial or real assets is transferred to a special-purpose vehicle by selling the underlying assets or using derivative contracts. In Italy the primary applicable statute is Law 130 of 30 April 1999.

Cash flow hedge
Coverage against exposure to variability in cash flows associated with a particular risk.

Cash-generating Unit (CGU)
The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Cash management
A banking service that in addition to informing companies on the status of their relations with the bank, is an operational tool enabling companies to transfer funds, thus leading to more efficient treasury management.

Certificates
Financial instruments which, based on their contracts, may be classified as optional derivatives that replicate the performance of an underlying asset. By purchasing a certificate, an investor acquires the right to receive – at a set date – an amount linked to the value of the underlying. In other words, through certificates investors can acquire an indirect position in the underlying asset. In some cases, investors can use the option structure to obtain full or partial protection of the invested capital, which takes the form of full or partial return of the premiums paid, irrespective of the performance of the parameters set in the contracts.
Certificates are securitised instruments and, as such, they can be freely traded as credit securities (traded on the SeDeX - Securitised Derivatives Exchange - managed by Borsa Italiana, and on the EuroTLX market).

Sale without recourse
Transfer of a loan or receivable in which the transferor does not offer any guarantees in the event of default by the debtor. The transferor thus only guarantees the transferee that the transferred loan or receivable exists, but not that the debtor is solvent.

Sale with recourse
Transfer of a loan or receivable in which the transferor guarantees payment by the debtor. The transferor thus guarantees the transferee both that the transferred loan or receivable exists and that the debtor is solvent.

CCF - Credit Conversion Factor
In determining credit risk, the CCF is the factor used to transform the EAD (Exposure At Default) of an off-balance sheet exposure into that of an on-balance sheet exposure. Where the Bank does not use internal models to estimate those factors (internal CCF), these are indicated as follows by the supervisory rules (regulatory CCF):
a) 100 % if it is a full risk item;
b) 50 % if it is a medium-risk item;
c) 20 % if it is a medium/low-risk item;
d) 0 % if it is a low-risk item.

CCP (Central Counterparty Clearing House)
A central counterparty is an institution interposed in securities trades between the two contracting parties, protecting the latter against default risk and guaranteeing the successful execution of the transaction. The central counterparty protects itself against its own risk by taking securities or cash collateral (margins) commensurate with the value and risk of the contracts guaranteed. Central counterparty services can be provided not only in the markets that expressly provide for them but also in respect of over-the-counter trading outside regulated markets.

CDO – Collateralised Debt Obligation
Financial instruments issued within the framework of securitisation transactions, backed by a pool of loans, bonds and other financial assets (including securitisation tranches). In the case of synthetic CDOs the risk is backed by credit derivatives instead of the sale of assets (cash CDOs).

CDSs on ABX
An Asset-backed security index (ABX) is an index with asset-backed securities as an underlying. Each ABX refers to a basket of 20 reference obligations belonging to a specific ABS sector. Each ABX (there are five in total) reproduces a rating class (AAA, AA, A, BBB, and BBB-).
In particular, the ABX.HE index, launched on 19 January 2006 (Annex Date), is made up of reference obligations of the home equity segment of ABS (Residential Mortgage-Backed Security – RMBS). The CDS on an ABX.HE therefore hedges the credit risk of underlying RMBSs or the risk relative to the 20 reference obligations which make up the index.
For ABX, the market does not provide credit curves but directly price valuation. The settlement admitted for contracts on ABX indices, as described in ISDA 2005 documentation, is PAUG (Pay As You Go): the protection seller pays the protection buyer the losses incurred as these emerge, without leading to termination of the contract.
Please note that the coverage achieved via the purchase of ABX indices, even if it is structured so as to match as closely as possible the characteristics of the hedged portfolio, remains in any case exposed to basis risks. In other words, since it is not a specific hedge

of individual exposures, it may generate volatility in the income statement whenever there is imperfect correlation between index prices and market value of the hedged positions.

CLO - Collateralised Loan Obligation
CDOs backed by a portfolio of corporate loans.

CMBS - Commercial Mortgage-Backed Securities
securitisationsDebt instruments backed by mortgages on commercial real estate.

CMO - Collateralised Mortgage Obligation
Securities backed by mortgages in which the total amount of the issue is divided into tranches with different maturities and return. The tranches are repaid according to an order specified in the issue.

Commercial paper
Short-term notes issued in order to collect funds from third-party underwriters as an alternative to other forms of indebtedness.

Consumer ABS
ABS whose collateral is made up of consumer credits.

Core Business
Main area of business on which company’s strategies and policies are focused.

Core deposits
“Core deposits” are “customer-related intangibles”, generally recorded in business combinations between banks. The intangible value of core deposits stems from the future benefits for the acquirer deriving from the normally lower funding cost compared to market parameters. Basically, the acquirer may use funding for its lending and investment activities which, under normal conditions, pays less than the market interest rate.

Common Equity Tier 1 Ratio (CET1 Ratio)
The ratio of Common Equity Tier 1 capital (CET1) to total risk-weighted assets.

Corporate
Customer segment consisting of medium- and large-sized companies (mid-corporate, large corporate).

Cost/income ratio
Economic indicator consisting of the ratio of operating costs to net operating income.

Amortised cost
Differs from “cost” in that it provides for the progressive amortisation of the differential between the book value and nominal value of an asset or liability on the basis of the effective rate of return.

Transaction costs
Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. It is a cost that would not have been incurred if the entity had not acquired issued or disposed of the financial instrument.

Covenant
A covenant is a clause, expressly agreed upon during the contractual phase, under which a lender is entitled to renegotiate and revoke a loan upon the occurrence of the events set out in the clause, linking the debtor's financial performance to events that trigger termination/amendment of contractual conditions (maturity, rates, etc.).

Coverage ratio
It represents the percentage coverage of the value adjustment with respect to the gross exposure.

Covered bond
Special bank bond that, in addition to the guarantee of the issuing bank, is also backed by a portfolio of mortgage loans or other high-quality loans sold to a special purpose vehicle.

CPPI (Constant Proportion Insurance Portfolio)
A technique consisting of forming a portfolio of two assets, one without risk that offers a certain rate of return (risk-free) and one with risk that offers a generally higher return. The purpose of the re-balancing procedure is to prevent the value of the portfolio from falling below a predetermined level (floor), which rises at the risk-free rate over time and coincides with the capital to be guaranteed at maturity.

Credit default swap/option
Contract under which one party transfers to another - in exchange for payment of a premium - the credit risk of a loan or security contingent on occurrence of a default event (in the case of an option the right must be exercised by the purchaser).

Credit derivatives
Derivative contracts for the transfer of credit risks. These products allow investors to perform arbitrage and/or hedging on the credit market, mainly by means of instruments other than cash, to acquire credit exposures of varying maturities and intensities, to modify the risk profile of a portfolio and to separate credit risks from other market risks.

Credit enhancement
Techniques and instruments used by issuers to improve the credit rating of their issues (providing sureties, cash credit lines, etc.).

Credit/emerging markets (Funds)
Funds that invest in securities with credit risk exposure, since they are issued by financial or corporate entities, which may be located in emerging countries.

Credit-linked notes
Similar to bonds issued by a protection buyer or a special purpose vehicle whose holders (protection sellers) – in exchange for a yield equal to the yield of a bond with the same maturity plus the premium received for credit risk hedging – take the risk of losing (in whole or in part) the maturing capital and the related flow of interest, upon occurrence of a default event.

Credit Risk Adjustment (CRA)
A technique that aims to draw attention to the penalty resulting from the counterparty's creditworthiness used in determining the fair value of unlisted derivative financial instruments.

Credit spread option
Contract under which the protection buyer reserves the right, against payment of a premium, to collect from the protection seller a sum depending on the positive difference between the market spread and that fixed in the contract, applied to the notional value of the bond.

Past due loans
"Past due exposures" are non-performing exposures on which payments are past due on a continuing basis for over 90 days, in accordance with the definition set forth in current supervisory reporting rules.

CreditVaR
Value that indicates an unexpected loss with respect to a credit portfolio at a specified confidence interval and a specified time horizon. CreditVaR is estimated through loss distribution and represents the difference between the average value of the distribution and the value corresponding to a certain percentile (usually 99.9%), which reflects the Bank's risk appetite.

Cross selling
Activity designed to increase customer loyalty through the sale of integrated products and services.

CRM – Credit Risk Mitigation
Techniques used by institutions to reduce the credit risk associated with their exposures.

CRP (Country Risk Premium)
Country risk premium; it expresses the component of the cost of capital aimed specifically at providing compensation for the risk implicit in a particular country (namely the risk associated with financial, political and monetary instability).

CR01
Referred to a credit portfolio, it indicates the change in portfolio value that would occur for a 1-basis-point increase in credit spreads.

CSA (Credit Support Annex)
A document through which counterparties trading in an over-the-counter derivative instrument establish the terms of contribution and transfer of the underlying guarantees to mitigate credit risk in the event of in-the-money position of the instrument. This document, although not mandatory for the transaction, is one of the four components that contribute to the establishment of the Master Agreement according to the standards established by the International Swaps and Derivatives Association (ISDA).

Reclassification date
The first day of the first reporting period following the change in business model that results in an entity reclassifying financial assets.

Default
Declared inability to honour one's debts and/or make the relevant interest payments.

Delinquency
Failure to make loan payments at a certain date, normally provided at 30, 60 and 90 days.

Delta
Value that expresses the sensitivity of the price of the underlying asset for an option. Delta is positive for call options because the price of the option rises along with the price of the underlying asset. Delta is negative for put options because a rise in the price of the underlying asset yields a decrease in the price of the option.

Embedded derivatives
Embedded derivatives are clauses (contractual terms) included in a financial instrument that generate the same effects as an independent derivative.

Desk
It usually designates an operating unit dedicated to a particular activity.

Dynamics of funding
Sum of deposits in a current account (free current accounts and bank drafts), returnable deposits upon prior notice (free savings deposits), time deposits (time current accounts and time deposits, certificates of deposit), repo agreements and bonds (including subordinated loans). All contract types, with the exception of bonds, refer to Italian customers, excluding the Central Administration, in euro and foreign currency. Bonds refer to the total amount issued, irrespective of residence and sector of the holder.

Directional (Funds)
Funds that invest in financial instruments that profit from directional market movements, also through macroeconomic forecasting.

Domestic Currency Swap
Contract settled in euro, whose economic effect is equal to that of a time purchase or sale of a foreign currency in exchange for domestic currency. On expiry, the difference between the forward and the spot exchange rates is settled in euro.

Duration
An indicator of the interest rate risk of a bond or bond portfolio. In its most frequent form, it is calculated as a weighted average of the due dates of interest and principal payments associated with a bond.

EAD – Exposure At Default
Relating to on- or off-balance sheet positions, it is defined as the estimated future value of an exposure upon default of a debtor. Only banks meeting the requirements for using the AIRB approach are entitled to estimate EAD. The others are required to make reference to statutory estimates.

ECAI – External Credit Assessment Institution
An external credit assessment institution.

EDF – Expected Default Frequency
Frequency of default, normally based on a sample internal or external to the bank, which represents the average risk level associable with a counterparty.

EHQLA (Extremely High Quality Liquid Asset)
Encumbered assets that are notionally eligible to be classified as extremely high quality liquid assets. Notionally eligible encumbered EHQLA and HQLA are the assets listed in Articles 11, 12 and 13 of Commission Delegated Regulation (EU) 2015/61.

ETD – Exchange Trade Derivatives
Standard derivative contracts (futures and options with various types of underlying) traded on regulated markets.

Embedded value
A measure of the underlying value of a life insurance company. It is the sum of the company's adjusted net asset value and the present value of the future income margins from the policies already in force over the period of their residual life.

Eonia (Euro overnight index average)
Weighted average of the overnight rates transmitted to the ECB by a sample of banks operating in the Euro area.

Equity hedge / long-short (Funds)
Funds that predominantly invest in stocks with the possibility of creating hedging strategies by means of short sales of the same stocks or strategies in derivative contracts involving securities or market indices.

Equity origination
Increase of a company's risk capital achieved by floating a new issue of stock.

ERP (Equity Risk Premium)
Risk premium demanded by investors in the market in question. ISP uses the risk premium calculated according to the historical approach (geometric average of the difference between equity and risk-free returns for the period 1928-2009) by New York University - Stern School of Business.

Exotics (derivatives)
Non-standard instruments unlisted on the regular markets, whose price is based on mathematical models.

EVA (Economic Value Added)
An indicator that provides a snapshot of the amount of value created (if positive) or destroyed (if negative) by enterprises. In contrast to other parameters that measure business performance, EVA is calculated net of the cost of equity capital, that is to say the investment made by shareholders.

Event-driven (Funds)
Funds that invest in opportunities arising out of significant events regarding the corporate sphere, such as mergers, acquisitions, defaults and reorganisations.

EVT – Extreme Value Theory
Statistical methodologies that deal with extreme hypothetical deviations from median of probability distributions of specific events.

Expected Credit Losses (ECL)
Expected credit risk adjustments, determined based on reasonable and supportable information about past events, current conditions and forecasts of future economic conditions.
Calculated as the difference between all contractual flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (i.e., all cash shortfalls) discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

12-Month Expected Loss
Portion of the lifetime expected loss that arises if the default occurs within 12 months from the reporting date (or a shorter period if the expected life is less than 12 months), weighted by the probability of that default.

Facility (fee)
Fee calculated with reference to the disbursed amount of a loan.

Factoring
Sale of trade receivables to factoring companies, for credit management and collection, normally associated with the granting of a loan to the seller.

Fair value
The amount at which an asset could be bought or sold or a liability incurred or settled, in a current transaction between willing parties.

Fair value hedge
Hedging against the risk of change in the fair value of a financial statement item, attributable to a particular risk.

Fair Value Option (FVO)
The Fair Value Option is an option for classifying a financial instrument.
When the option is exercised, even a non-derivative financial instrument not held for trading may be measured at fair value through profit or loss.

Fairness/Legal opinion
An opinion provided on request by experts of recognised professionalism and competence, on the adequacy of the economic terms and/or lawfulness and/or technical aspects of a given transaction.

"G" factor ("g" growth rate)
It is the factor used for perpetuity projection of cash flows in order to calculate "Terminal value".

FICO Score
In the US, a credit score is a number (usually between 300 and 850) based on the statistical analysis of an individual's credit report. The FICO score is an indicator of the borrower's creditworthiness. A mortgage lender will use the "score" to assess borrower default risk and to correctly price risk.

FIFO: First In First Out
Criterion used to recognise the expected credit losses (ECL) recorded on a security through profit or loss at the time of sale

Prudential filters
In schemes for calculating regulatory capital, corrections made to line items with the aim of safeguarding the quality of regulatory capital and reducing its potential volatility as a result of the application of international accounting standards (IAS/IFRS).

Harmonised mutual funds
Mutual funds within the scope of Directive 85/611/EEC of 20 December 1985, as amended, characterised by their open form, the possibility of offering units to the public and certain investment limits. Investment limits include the obligation to invest primarily in quoted financial instruments.

Forward Rate Agreement
See "Forwards".

Forwards
Forward contracts on interest rates, exchange rates or stock indices, generally negotiated in over-the-counter markets and whose conditions are established at the time when the contract is entered into, but which will be executed at a specified future date, by means of the receipt or payment of differentials calculated with reference to parameters that vary according to the object of the contract.

Front office
The divisions of a company designed to deal directly with customers.

Funding
The raising of capital, in various forms, to finance the company business or particular financial transactions.

Futures
Standardised forward contracts under which the parties agree to exchange securities or commodities at a specified price on a specified future date. Futures are normally traded on organised markets, where their execution is guaranteed. In practice, futures on securities often do not involve the physical exchange of the underlying.

FVTOCI: Fair Value Through Other Comprehensive Income
Method of recognition of changes in the fair value of financial assets through other comprehensive income (therefore in shareholders' equity) and not through profit or loss.

FVTPL: Fair Value Through Profit or Loss
Method of recognition of changes in the fair value of financial assets through profit or loss

Global custody
An integrated package of services including, in addition to the custody of securities, the performance of administrative activities relating to the settlement of securities, collections and payments, acting as depositary bank and cash management, as well as various forms of portfolio performance reporting.

GMSLA
Global Master Securities Lending Agreement: these are margin agreements used to mitigate counterparty risk in securities lending transactions

GMRA
Global Master Repurchase Agreement: these are margin agreements used to mitigate counterparty risk in repurchase agreement transactions

Goodwill
The value attached to intangible assets as part of the purchase price of a shareholding in a going concern.

Governance
The set of instruments, rules and standards regulating the life of the company, particularly as regards the transparency of documents and company records, and the completeness of information made available to the market.

Grandfathering
The new composition of own funds under Basel 3 and other less significant measures will enter into force following a transitional period. Specifically, old instruments included in Basel 2 regulatory capital, which are not included under Basel 3, will be gradually eliminated (referred to as the grandfathering period).

Greeks
Greeks are the quantities that identify the greater or lesser sensitivity of a derivative contract, typically an option, to changes in the value of the underlying asset or other parameters (e.g. intrinsic volatility, interest rates, stock prices, dividends and correlations).

Hedge accounting
Rules pertaining to the accounting of hedging transactions.

Hedge funds
Mutual fund that employs hedging instruments in order to achieve a better result in terms of risk/return ratio.

HELs – Home Equity Loans
Loans granted up to the current market value of the real estate property used as collateral (therefore with a loan-to-value ratio higher than the ordinary thresholds), by means of first or second lien mortgages. Standard & Poor's considers Subprime and Home Equity Loan largely synonymous when the home equity loan borrowers have low credit score (FICO<659).

HQLA (High Quality Liquid Asset)
Encumbered assets that are notionally eligible to be classified as high quality liquid assets. Notionally eligible encumbered EHQLA and HQLA are the assets listed in Articles 11, 12 and 13 of Commission Delegated Regulation (EU) 2015/61.

HY CBO – High-Yield Collateralised Bond Obligation
CDOs with collateral represented by High-Yield securities.

IAS/IFRS
The IAS (International Accounting Standards) are issued by the International Accounting Standards Board (IASB). The standards issued after July 2002 are called IFRS (International Financial Reporting Standards).

IASB (International Accounting Standard Board)
The IASB (previously known as the IASC) is the entity responsible for issuing international accounting standards (IAS/IFRS).

ICAAP (Internal Capital Adequacy Assessment Process)
The "Second Pillar" provisions require that banks implement processes and instruments of Internal Capital Adequacy Assessment Process (ICAAP), to determine the amount of internal capital needed to cover all risks, including risks different from those covered by the total capital requirement ("First Pillar"), when assessing current and potential future exposure, taking into account business strategies and developments in the economic and business environment.

IFRIC (International Financial Reporting Interpretations Committee)
A committee within the IASB that establishes official interpretations of international accounting standards (IAS/IFRS).

IMA (Internal Models Approach)
Approach for calculating the capital requirement for market risk using internal models.

IMM (Internal Model Method)
Method for calculating Exposure at Default, within the counterparty risk assessment, through internal models based on the concept of Expected Positive Exposure.

Impairment
When referred to a financial asset, a situation of impairment is identified when the book value of an asset exceeds its estimated recoverable amount.

Deferred tax (tax liabilities or assets)
Deferred tax liabilities are the amounts of income tax that will be payable in future periods and arising from taxable temporary differences.
Deferred tax assets are the amounts of income taxes claimable in future periods and arising from:
(a) deductible temporary differences;
(b) the carry forward of unused tax losses; and
(c) the carry forward of unused tax credits.
Temporary difference is the difference between the carrying amount of an asset or liability and its tax base.
There are two types of temporary difference:
a) taxable temporary difference, i.e. a temporary difference that, when determining the taxable income (tax loss) of future periods, will result in taxable amounts in the future when the carrying amount of the asset is recovered or the liability is settled; or

b) deductible temporary difference: a temporary difference that, when determining the taxable income (tax loss) of future periods, will result in amounts that are tax deductible in the future when the carrying amount of the asset is recovered or the liability is settled.

Significant increase in credit risk "SICR"
Criterion used to verify the transition between stages: if the credit risk of the financial instrument has increased significantly since initial recognition, the value adjustments are equal to the lifetime expected credit losses of the instrument (lifetime ECL). The bank establishes whether there has been a significant increase in credit risk based on qualitative and quantitative information. Exposures are considered to have had a significant increase in credit risk when:
- the weighted average lifetime PD has increased beyond the threshold at the time of the origination. Other measures of PD deterioration can also be used. The relative thresholds are defined as percentage increases and set at a particular value or segment;
- exposures are determined to be of higher credit risk and subject to closer monitoring;

exposures are more than 30 days past due, used as a backstop rather than a primary driver

Incurred loss
Loss already inherent in a portfolio, but not yet identifiable at the level of an individual loan or receivable, also known as an "incurred but not reported loss." It represents the risk level inherent in a portfolio of performing loans and is the basic indicator for determining the size of the stock of collective adjustments recognised in the financial statements.

Index-linked
Policies whose performance at maturity depends on the performance of a reference parameter, which may be a stock index, a basket of securities or some other indicator.

CMBX index
The same as the ABX index, the only difference being that the reference entities are CMBSs.

Internal dealing
Transactions between different operating units of the same company. These transactions are recognised in the accounts and contribute to determining the position (trading or hedging) of the individual units involved.

Intraday
Used to refer to an investment/disinvestment transaction performed in the course of a single day involving the negotiation of a security. It is also used with reference to prices quoted during any one day.

Investment property
Real estate owned for the purpose of obtaining income and/or benefiting from an increase in their value.

Investment grade
Term used with reference to high-quality bonds that have received a medium/high rating (e.g., not less than BBB on Standard & Poor's index).

IRC – Incremental Risk Charge
The maximum potential loss in the trading book resulting from an upgrade/downgrade or bankruptcy of the issuers, over a 1-year period, with a 99.9% confidence level.

IRS – Interest Rate Swap
A binding agreement between two parties to exchange two flows calculated over a notional amount with fixed/floating or floating/floating rate.

ISDA - International Swaps and Derivatives Association
An association of participants in the over-the-counter derivatives market. It is based in New York and has created a standard contract for entering into derivatives transactions.

Joint venture
Agreement between two or more firms for the performance of a given economic activity, generally through the incorporation of a joint-stock company.

Junior
In a securitisation transaction, it is the lowest-ranking tranche of the securities issued, being the first to bear losses that may occur in the course of the recovery of the underlying assets.

Ke (Cost of Equity)
Cost of equity, the minimum return demanded for investments of the same risk level.

Ke – g
Difference between the cash flow discounting rate and the long-term growth rate. If cash flows remain equal, value in use increases as that difference decreases.

Lambda (λ)
Coefficient that measures the assessed item's specific exposure to country risk. In the model used by Intesa Sanpaolo, it is estimated to be 1, in that it is presumed that it is necessary to vary the country's risk level.

LCRE: Low Credit Risk Exemption
Exemption from the ordinary credit risk measurement according to which it can be assumed that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk (at least equal to investment grade) at the reporting date.

LDA - Loss Distribution Approach
Method of quantitative assessment of the risk profile through actuarial analysis of individual internal and external loss events; by extension, the term Loss Distribution Approach also refers to the calculation model for the historical capital per business unit.

Lead manager - Bookrunner
Lead bank of a bond issue syndicate. The lead manager deals with the debtor and is responsible for choosing the co-lead managers and the other members of the underwriting syndicate in agreement with the debtor. It also determines the terms and conditions of issue and coordinates its execution (usually placing the largest share of the issue on the market) and keeps the books (bookrunner); in addition to reimbursement of expenses and usual fees, the lead manager receives a special commission for its services.

Risk-based lending
A methodology applied to a credit portfolio to identify the most suitable pricing conditions taking into account the risk factor of each credit.

Leveraged & acquisition finance
See “Acquisition finance”.

Liquidity Coverage Ratio (LCR)
It aims to ensure that a bank maintains an adequate level of unencumbered, high-quality liquid assets that may be converted into cash to meet its liquidity needs within a period of 30 days under conditions of severe stress. The liquidity coverage ratio is equal to the ratio of liquidity reserves to net outflows of liquidity over a stress period of 30 calendar days.

LTV – Loan-to-Value Ratio
The ratio between the loan and the value of the asset for which the loan was requested or the price paid by the borrower to buy the asset.
The LTV ratio measures the weight of the borrower’s own funds used to buy the asset on the value of the asset used as guarantee of the loan. The higher the LTV ratio, the lower the borrower’s own funds used to buy the asset, the lower the creditor’s protection.

Cumulative loss
Cumulative loss incurred, at a certain date, on the collateral of a specific structured product.

Loss Given Default (LGD)
It represents the percentage of loans that are estimated to be irrecoverable in the event of default by the debtor.

M–Maturity
The remaining time of an exposure, calculated according to the prudence principle. For banks authorised to use internal ratings, it is explicitly considered if the advanced approach is adopted, while it is fixed at 2.5 years if the foundation approach is used.

Macro-hedging
Use of macro-hedging. Hedging procedure involving a single derivative product for various positions.

Mark to Market
Process of determining the value of a portfolio of securities or other financial instruments by reference to the prices expressed by the market.

Market dislocation
Turbulence in financial markets characterised by a strong reduction in volumes traded on financial markets with difficulties in finding significant prices on specialised information providers.

Market making
Financial activity carried out by brokerage houses that ensure market liquidity and depth, both through their ongoing presence and by means of their role as competitive guides in determining prices.

Market neutral
Operating strategies involving securities designed to minimise the relevant portfolios’ exposure to market volatility.

Mark-down
Difference between the 1-month Euribor and interest rates on household and business current accounts.

Mark-up
Difference between the overall interest rate applied to households and businesses on loans with a duration of less than one year and 1-month Euribor.

Merchant banking
A range of activities including the underwriting of securities – both equities and bonds – issued by corporate customers for subsequent offering on the market, the acquisition of equity investments for longer periods but always with the aim of selling them later, and the provision of advisory services on mergers, acquisitions and reorganisations.

Mezzanine
In a securitisation transaction it is the tranche ranking between junior and senior tranche.

Monoline
Insurance companies which, in exchange for a commission, guarantee the reimbursement of certain bond issues. Formed in the 1970s to guarantee municipal bond issues from default, their services were subsequently particularly appreciated for issues of complex financial products: the structure and the assets underlying such issues are often highly complex; the debt positions guaranteed by monoline insurers become easier to value and more appealing for risk-averse investors, since default risk is borne by the insurer.

Multistrategy / Funds of funds (Funds)
Funds that do not invest in a single strategy but in a portfolio reflecting different strategies, i.e. in a portfolio of investment funds managed by third parties.

NAV - Net Asset Value
The market value of one share of the fund's managed assets.

Net Stable Funding Ratio (NSFR).
It is aimed at promoting the increased use of stable funding, to prevent medium/long-term operations from giving rise to excessive imbalances to be financed in the short term. Net stable funding requirement is equal to the ratio of the stable funding available to the entity to the stable funding required by the entity and is expressed as a percentage.

Non-performing
Term generally referring to loans for which payments are overdue.

Covered bond
See "Covered Bond".

Option
Against payment of a premium, the buyer acquires the right, but not the obligation, to purchase (call option) or to sell (put option) a financial instrument at a set price (strike price) within (American option) or on (European option) a given future date.

Outsourcing
The transfer of business processes to external providers.

Overnight Indexed Swap (OIS)
Contract involving the exchange of the net flow deriving from the difference between a fixed and floating interest rate applied to a notional principal amount. The fixed rate is set at the inception of the contract, while the floating rate is determined at maturity as the average of the overnight rates surveyed during the term of the contract, with compound interest.

Over-The-Counter (OTC)
It designates transactions carried out directly between the parties outside organised markets.

Packages
Strategy made up of a funded asset whose credit risk is hedged by a specific credit default swap. If present, any interest rate and foreign exchange rate risks can be hedged with financial derivatives.

Expected credit loss
It is calculated as the product of the Probability of Default (PD) and Loss Given Default (LGD) multiplied by the exposure value (EAD). It represents the ratio of the amount expected to be lost on the exposure, over a time horizon of one year, as a result of a potential default by the counterparty and the amount of the exposure at the time of default.

Lifetime expected loss
Expected credit loss that results from all possible default events over the expected life of a financial instrument.

Performing
Term generally referring to loans characterised by regular performance.

Plain vanilla (derivatives)
Products whose price depends on that of the underlying instrument, which is listed on the regulated markets.

POCI: Purchased or Originated Credit-Impaired Assets – Assets for which the lifetime expected losses are recognised upon initial recognition and which are automatically classed as Stage 3.

Index-linked life insurance policies
Life insurance policies the benefits of which are based on indexes, normally drawn from equity markets. Policies may guarantee capital or offer a minimum return.

Pool (transactions)
See "Syndicated lending".

Held for trading
A financial asset or financial liability that:
- is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- on initial recognition is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Pricing
Broadly speaking, it generally refers to the methods used to determine yields and/or costs of products and services offered by the Bank.

Prime broker
The Prime Broker is an international financial intermediary that operates as agent in the settlement process, carrying out the financial transactions ordered by the hedge fund's manager with the utmost confidentiality. The Prime Broker also acts as the fund's lender, providing credit lines and securities lending for short selling, and directly obtaining guarantees in respect of the financing granted to the fund. The Prime Broker also provides risk management services, monitoring the hedge fund's risk exposure to ensure conditions of financial stability. Other services provided by the Prime Broker are holding and deposit of the fund's cash and securities, handling of the netting and settlement process, and recording of all market transactions.

Prime loan
Mortgage loan in which both the criteria used to grant the loan (loan-to-value, debt-to-income, etc.) and to assess the borrower's history (no past due reimbursements of loans, no bankruptcy, etc.) are sufficiently conservative to rank the loan as high-quality (as concerns the borrower) and low-risk.

Private banking
Business designed to provide preferred customers with asset management, professional advice and other personalised services.

Private equity
Activity aimed at the acquisition of equity investments and their subsequent sale to specific counterparties, without public offerings.

One-year Probability of Default (PD)
The likelihood that a debtor will default within the space of 1 year.

Lifetime PD
The likelihood that a debtor will default within a period equal to the expected life of the financial instrument.

Project finance
Technique for the financing of industrial projects based upon a forecast of the cash flow generated by the projects themselves. The analysis is based upon a series of evaluations differing from those generally made when assessing ordinary credit risk and covering, in addition to cash flow analysis, technical examination of the project, the suitability of the sponsors engaged in its implementation and the markets where the product will be placed.

PV01
Measures the price value change of a financial asset following a one basis point shift in the yield curve.

Indirect customer deposits
The holding of third parties' securities and similar valuables not issued by the bank, at nominal value, excluding certificates of deposit and bank bonds.

Rating
An evaluation of the quality of a company or of its bond issues, based on the company's financial strength and outlook. Such evaluation is performed by specialised agencies or by the Bank based on internal models.

Real estate (finance)
Structured finance transactions in the real estate sector.

Real Estate Investment Trust (REITs)
REITs are entities that invest in different types of real estate or financial assets related to real estate, including malls, hotels, offices and mortgage loans.

Relative value/Arbitrage (Funds)
Funds that invest in market neutral strategies, profiting from the price differentials of particular securities or financial contracts, neutralising the underlying market risk.

Retail
Customer segment mainly including households, professionals, retailers and artisans.

Counterparty risk
Counterparty risk is a particular type of credit risk, relating to OTC derivatives and SFTs (Securities Financing Transactions), which refers to the possible default of the counterparty before the expiry of a contract that has a positive market value.

Credit risk
The risk that an unexpected change in a counterparty's creditworthiness, in the value of the collateral provided, or in the margins used in case of default might generate an unexpected variation in the value of the bank's exposure.

Market risk
Risk deriving from the fluctuation in the value of quoted financial instruments (shares, bonds, derivatives, securities denominated in foreign currency) and of financial instruments whose value is linked to market variables (loans to customers as concerns the interest rate component, deposits in euro and in foreign currency, etc.).

Liquidity risk
The risk that a company will be unable to meet its payment obligations due to its inability to liquidate assets or obtain adequate funding from the market (funding liquidity risk) or due to the difficulty/impossibility of rapidly converting financial assets into cash

without negatively and significantly affecting their price due to inadequate market depth or temporary market disruptions (market liquidity risk).

Operational risk
Risk of incurring losses due to inadequacy or failures of processes, human resources or internal systems, or as a result of external events. Operational risk includes legal risk and compliance risk, model risk, ICT risk and financial reporting risk; strategic and reputational risk are not included.

Risk-free
Return on risk-free investments. For the Italy CGU and countries in the International Subsidiary Banks CGU with "normal" growth prospects, the return on 10-year Bunds has been adopted, while for countries with "strong" growth prospects, the return on 30-year Bunds has been used.

Risk Management
Activity pertaining to the identification, measurement, evaluation and overall management of various types of risk and their hedging.

RMBS - Residential Mortgage-Backed Securities
Asset-backed securities guaranteed by mortgages on residential real estate.

ROE (Return On Equity)
It expresses the return on equity in terms of net income. It is the indicator of greatest interest to shareholders in that it allows them to assess the return on their equity investment.

RTS (Regulation Technical Standards)
Regulatory technical standards

Risk-Weighted Assets (RWA)
On- and off-balance sheet assets (derivatives and guarantees) that are classified and weighted by means of several risk ratios, in accordance with the rules issued by regulatory authorities on the calculation of capital ratios.

Scoring
System for the analysis of company customers, yielding an indicator obtained by examination of financial statements data and sector performance forecasts, analysed by means of statistical methods.

Senior/Super senior tranche
In a securitisation transaction, this is the tranche that has first claim on interest and principal payments.

Sensitivity
It refers to the degree of sensitivity with which certain assets/liabilities react to changes in rates or other input variables.

Servicer
In securitisation transactions, it is the organisation that – on the basis of a specific servicing contract – continues to manage the securitised credits or assets after they have been transferred to the special purpose vehicle tasked with issuing the securities.

SGR (Società di gestione del risparmio)
Joint-stock companies reserved the possibility of providing both collective and individual asset management service jointly. In particular, they are authorised to set up mutual funds, manage their own or others' mutual funds and the assets of SICAVs and provide individual investment portfolio management service.

SPE/SPV
A Special Purpose Entity or Special Purpose Vehicle is a company established by one or more entities to perform a specific transaction. Generally, SPEs/SPVs have no operating and managerial structures of their own and rely on those of the other parties involved in the transaction.

Speculative grade
Term used to identify issuers with a low credit rating (e.g., below BBB on Standard & Poor’s index).

SPPI TEST
One of the two classification drivers (the other is the “business model”) that the classification of the financial assets and the measurement basis depend on. The objective of the SPPI test is to identify the instruments, which can be defined as “basic lending arrangements” in accordance with the standard, whose contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI - solely payment of principal and interest). Assets with contractual characteristics other than SPPI are mandatorily measured at FVTPL.

Spread
This term can indicate the difference between two interest rates, the difference between the bid and ask price of a security or the price an issuer of stocks and bonds pays above a benchmark rate.

SpreadVar
Value that indicates the maximum possible loss on a trading portfolio due to the market performance of CDS spreads or bond spreads, with a certain degree of probability and assuming a certain amount of time needed for the disposal of positions.

Stage 1
Represents the financial instruments whose credit risk has not significantly increased since the initial recognition date. A 12-month expected loss is recognised for these financial Instruments.

Stage 2
Represents the financial instruments whose credit risk has significantly increased since the initial recognition date. A lifetime expected loss is recognised for these financial Instruments.
Stage 3
Represents financial instruments that are credit impaired or in default. A lifetime expected loss is recognised for these financial Instruments.

Stakeholders
Subjects who, acting in different capacities, interact with the firm's activity, sharing in its profits, influencing its performance/services, and evaluating its economic, social and environmental impact.

Stock options
Term used to indicate the right granted to company managers to purchase the company's shares at a certain price (strike price).

Stress tests
A simulation procedure designed to assess the impact of extreme market scenarios on a bank's overall exposure to risk.

Structured export finance
Structured finance transactions in the goods and services export financing sector.

Financial instruments listed in an active market
A financial instrument is regarded as listed in an active market if listed prices are promptly and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Subprime
A universally agreed-upon definition of sub-prime loans does not exist. In short, this term refers to loans granted to borrowers with low creditworthiness, either because of bad credit history (non-payment, debt settlements or bad loans) or because their debt-to-income or loan-to-value ratio is high.

Swaps
Transactions normally consisting of an exchange of financial flows between operators under various contractual arrangements. In an interest-rate swap, the parties exchange flows which may or may not be benchmarked on interest rates, calculated on a notional principal amount (e.g., one party pays a fixed-rate flow while the other pays a floating-rate flow). In the case of a currency swap, the parties exchange specific amounts of two different currencies at the outset, repaying them over time according to arrangements that may regard both the principal and the indexed interest flows.

Syndicated lending
Loans arranged and guaranteed by a pool of banks and other financial institutions.

Effective interest rate
The effective interest rate is the rate that exactly discounts estimated future cash payments of the loan, for principal and interest, to the amount disbursed inclusive of the costs/revenues attributable to the loan. This measurement method uses a financial approach and allows distribution of the economic effect of the costs/revenues through the expected residual maturity of the loan.

Tax rate
The effective tax rate, determined by the ratio of income taxes to income before tax.

Terminal value
An enterprise's value at the end of an analytical cash-flow forecasting period, calculated by multiplying the analytical cash flow for the final period by (1 + g) and dividing that amount by (Ke-g).

Impairment test
The impairment test is an estimate of the recoverable amount (the higher of an asset's fair value less costs to sell and its value in use) of an asset or group of assets. Pursuant to IAS 36, the following assets should be tested for impairment annually:
- intangible assets with indefinite useful life;
- goodwill acquired in a business combination;
- any asset, if there is any indication of impairment losses.

Tier 1
Tier 1 Capital consists of Common Equity Tier 1 Capital (CET1) and Additional Tier 1 Capital (AT1).

Tier 1 capital ratio
Ratio of Tier 1 Capital, which consists of Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1), to total risk-weighted assets.

Tier 2
Tier 2 capital is mainly composed of eligible subordinated liabilities and any excess of adjustments over and above expected losses (the excess reserve) for positions weighted according to IRB approaches.
Specific transitional provisions (grandfathering) have also been established for subordinated instruments that do not meet the requirements envisaged in the new Basel 3 regulatory provisions, aimed at the gradual exclusion of instruments no longer regarded as eligible from own funds (over a period of eight years).

Time value
Change in the financial value of an instrument with regard to the time frame in which certain monetary flows will become available or due.

Total capital ratio
Capital ratio referred to regulatory capital components of Own Funds (Tier 1 plus Tier 2).

Total return swap
A contract under which one party, usually the owner of a security or a debt instrument, agrees to make periodic payments to an investor (protection seller) of the capital gains and interest generated by the asset. On the other side, the investor agrees to make payments based on a floating rate, as well as any negative price changes of the asset from the date of the contract.

Trading book
The portion of a portfolio of securities or other financial instruments earmarked for trading activity.

Trustee (Real estate)
Real estate vehicles.

Trust-preferred Securities (TruPS)
Financial instruments similar to preferred shares, which are entitled to particular tax benefits.

Underwriting fee
Fee received in advance by the bank as compensation for assuming the underwriting risk associated with the granting of a loan.

Value in use
Value in use is the present value of estimated future cash flows expected to arise from an asset or from a cash-generating unit.

Collective assessment of performing loans
With reference to a homogeneous group of regularly performing financial assets, collective assessment defines the degree of credit risk potentially associated with them, though it is not yet possible to tie risk to a specific position.

Fundamental Valuation
Stock price analysis performed by estimating the fair value of stocks and comparing it with their market value.

VaR - Value at Risk
The maximum value likely to be lost on a portfolio as a result of market trends, estimating probability and assuming that a certain amount of time is required to liquidate positions.

Vega
Coefficient that measures the sensitivity of an option's value in relation to a change (increase or decrease) in volatility.

Vega 01
Referred to a portfolio, it indicates the change in value that it would undergo as a consequence of a one percent increase in the volatility of the underlying financial instruments.

Vintage
Date of generation of the collateral underlying the securitisation. It is an important factor in the assessment of the risk of the mortgage portfolios underlying securitisations.

Expected life
This refers to the maximum contractual life and takes into account expected prepayment, extension, call and similar options. The exceptions are certain revolving financial instruments, such as credit cards and bank overdrafts, that include both a drawn and an undrawn component where the bank’s contractual ability to demand repayment and cancel the undrawn commitment does not limit the bank’s exposure to credit losses to the contractual notice period. The expected life for these credit facilities is their behavioural life. Where data is insufficient or analysis inconclusive, an additional ‘maturity factor’ may be incorporated to reflect the full estimated life, based upon other experienced cases or similar cases of peers. Potential future modifications of contracts are not taken into account when determining the expected life or exposure at default until they occur.

Warrant
Negotiable instrument that entitles the holder to purchase from or sell to the issuer fixed-income securities or shares according to specific procedures.

Waterfall
Characteristic of a CDO’s cash flow projection that is used in the CDO pricing process to model and allocate flows. It establishes the priority of payment of the various tranches in the event of failure of the tests on overcollateralisation and interest coverage ratios.

Wealth management
See “Asset management”.

What-if
Form of analysis that attempts to predict the response of specific elements to changes in baseline parameters.

Wholesale banking
Banking activity mainly consisting of high-value transactions concluded with major counterparties.

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GALLERIE D'ITALIA.
THREE MUSEUMS, A NATIONWIDE CULTURAL NETWORK.

Gallerie d'Italia enables Intesa Sanpaolo to share its artistic and architectural heritage with the general public: 1,000 of its artworks are displayed in historic palazzos in three cities, creating a unique network of museums.

Housed in a palace of great architectural importance, **Gallerie d'Italia - Piazza Scala, Milan** has a selection of two hundred 19th-century Lombard masterpieces from art collections owned by Fondazione Cariplo and Intesa Sanpaolo, with a dedicated exhibit on Italian art of the 20th century.

Gallerie d'Italia - Palazzo Leoni Montanari, Vicenza is home to art of the Veneto region from the 1700s as well as Attic and Magna Graecia pottery. It also holds one of the most important collections of Russian icons in the West.

Gallerie d'Italia - Palazzo Zevallos Stigliano, Naples hosts the *Martyrdom of Saint Ursula*, the last known painting by Caravaggio, alongside more than 120 examples of Neapolitan art dating from the early 17th to the early 20th century.

A fourth hub for **Gallerie d'Italia is currently under construction in Piazza San Carlo, Turin**, with a special focus on photography and the digital world.

Cover photo:

CARLO CANELLA
(Verona, 1800 - Milan, 1879)
The New Gallery in Milan with night-time passers-by, 1870
oil on canvas, 60.90 x 54.50 cm
Intesa Sanpaolo Collection
Gallerie d'Italia - Piazza Scala, Milan

The New Gallery in Milan with night-time passers-by was painted by the artist Carlo Canella, who specialised in perspective views of various Italian cities, particularly Milan and Verona, from the mid-1830s onwards.
His painting depicts the Galleria Vittorio Emanuele II a few years after it opened in 1867. The new Gallery found instant favour and acclaim among the people of Milan. The annals tell us that singers were the first to frequent the Gallery, trying out their voices in spontaneous singing contests beneath the great dome of the Octagon. Luxurious cafés, bookshops and numerous fashionable clothes stores flourished on the Gallery's ground floor.
The painting received instant praise for its novel subject matter and the artist's success in setting the scene in a gallery, which appears brightly lit despite the upper part being in shadow.

The piece is part of the collection on permanent display at **Gallerie d'Italia - Piazza Scala**, Intesa Sanpaolo's museum hub **in Milan**. Its 19th-century section begins with Neoclassicism and goes right through to the early 20th century, taking in a century of Italian art on the way, with historic paintings, Italian unification battles, *vedute* and landscapes, genre paintings and masterpieces of Symbolism.

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